



Essex County Council

# Audit, Governance and Standards Committee

|              |                                 |  |
|--------------|---------------------------------|--|
| <b>10:00</b> | <b>Monday, 29 July<br/>2024</b> | <b>Committee Room<br/>1<br/>County Hall,<br/>Chelmsford, CM1<br/>1QH</b> |
|--------------|---------------------------------|--|

**For information about the meeting please ask for:**

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## Essex County Council and Committees Information

All Council and Committee Meetings are held in public unless the business is exempt in accordance with the requirements of the Local Government Act 1972.

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|          |   | <b>Pages</b>   |
|----------|---|----------------|
| <b>1</b> | <b>Membership, apologies, substitutions and declarations of interest</b>  | <b>5 - 5</b>   |
| <b>2</b> | <b>Minutes and Matters Arising</b>  | <b>6 - 11</b>  |
|          | To approve as a correct record the minutes of the meeting held on 10 June 2024 and to identify any matters arising. |                |
| <b>3</b> | <b>Update on the 2021-22 external audit of Essex County Council</b>   | <b>12 - 58</b> |
|          | To receive a report to be presented by Christine Golding, Chief Accountant.   |                |

|           |   |                  |
|-----------|---|------------------|
| <b>4</b>  | <b>Update on the 2021-22 external audit of the Essex Pension Fund</b>   | <b>59 - 101</b>  |
|           | To receive a report to be presented by Christine Golding, Chief Accountant.   |                  |
| <b>5</b>  | <b>2022-23 Audit Planning Report for Essex County Council</b>   | <b>102 - 139</b> |
|           | To receive a report to be presented by Christine Golding, Chief Accountant.   |                  |
| <b>6</b>  | <b>2022-23 Audit Planning Report for Essex Pension Fund</b>   | <b>140 - 168</b> |
|           | To receive a report to be presented by Christine Golding, Chief Accountant.   |                  |
| <b>7</b>  | <b>Recruitment of the Independent Member appointed to the Audit Governance and Standards Committee and of Independent Persons to consider Code complaints</b> | <b>169 - 173</b> |
|           | To receive a report from Paul Turner, Director, Legal and Assurance, Essex County Council.  |                  |
| <b>8</b>  | <b>Social Media Issues Part 1 Public Report</b>   | <b>174 - 189</b> |
| <b>9</b>  | <b>Work Programme</b>   | <b>190 - 192</b> |
|           | To receive a report from Paul Turner, Director, Legal and Assurance, Essex County Council.  |                  |
| <b>10</b> | <b>Date of next meeting</b>   |                  |
|           | To note that the next meeting of the Committee will take place at 10am on 23 September in Committee Room 1 at County Hall, Chelmsford, CM1 1QH.               |                  |

## 11 Urgent Business

To consider any matter which in the opinion of the Chairman should be considered in public by reason of special circumstances (to be specified) as a matter of urgency.

### **Exempt Items**

(During consideration of these items the meeting is not likely to be open to the press and public)

The following items of business have not been published on the grounds that they involve the likely disclosure of exempt information falling within Part I of Schedule 12A of the Local Government Act 1972. Members are asked to consider whether or not the press and public should be excluded during the consideration of these items. If so it will be necessary for the meeting to pass a formal resolution:

**That the press and public are excluded from the meeting during the consideration of the remaining items of business on the grounds that they involve the likely disclosure of exempt information falling within Schedule 12A to the Local Government Act 1972, the specific paragraph(s) of Schedule 12A engaged being set out in the report or appendix relating to that item of business.**

## 12 **Audit, Governance and Standards Committee Private Minutes 10 June 24**

- Information relating to any individual;
- Information which is likely to reveal the identify of an individual;
- Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings;

## 13 **Social Media Issues Part 2 Private Report**

- Information relating to any individual;
- Information which is likely to reveal the identify of an individual;
- Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings;

**14 Urgent Exempt Business**

To consider in private any other matter which in the opinion of the Chairman should be considered by reason of special circumstances (to be specified) as a matter of urgency.

**Committee:** Audit, Governance and Standards

**Enquiries to:** Sophie Crane, Senior Democratic Services Officer  
[Democratic.services@essex.gov.uk](mailto:Democratic.services@essex.gov.uk)

**Membership, Apologies, Substitutions and Declarations of Interest**

**Recommendations:**

To note

1. The membership of the committee as shown below.
2. Apologies and substitutions
3. Declarations of interest to be made by Members in accordance with the Members' Code of Conduct

**Membership**

(Quorum: 3)

|                        |                                 |
|------------------------|---------------------------------|
| Cllr Anthony Hedley    | Chairman                        |
| Cllr Susan Barker      |                                 |
| Cllr Andrew Johnson    |                                 |
| Cllr David King        |                                 |
| Cllr Aidan McGurran    |                                 |
| Cllr Anthony McQuiggan | Vice-Chairman                   |
| Cllr Mark Platt        |                                 |
| Cllr Laureen Shaw      |                                 |
| Cllr Chris Siddall     | Vice-Chairman                   |
| Cllr Wendy Stamp       |                                 |
| Mr Atta Ul Haque       | Independent member (non-voting) |

**Named Substitutes**

Cllr Lewis Barber  
Cllr Jane Fleming  
Cllr Mike Mackrory  
Cllr Jaymey McIvor  
Cllr Lee Scordis

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## The Minutes of the meeting of the Audit, Governance and Standards Committee, held in Committee Room 1, County Hall, Chelmsford on Monday 10 June 2024

A [YouTube recording](#) of the meeting can be found online.

### Present:

#### Members of the Committee:

|                        |   |
|------------------------|---|
| Cllr Anthony Hedley    | Chairman                                      |
| Cllr Anthony McQuiggan | Vice Chairman                                 |
| Cllr Jane Fleming      |   |
| Cllr Andrew Johnson    |   |
| Cllr David King        |   |
| Cllr Aidan McGurran    |   |
| Cllr Mark Platt        |   |
| Cllr Wendy Stamp       |   |
| Mr Atta Ul Haque       | Independent Member appointed to the Committee |

Cllrs Lewis Barber and Laureen Shaw attended via Zoom.

#### ECC Officers:

|                     |                                    |
|---------------------|------------------------------------|
| Christine Golding   | Chief Accountant                   |
| Stephanie Mitchener | Director, Finance                  |
| Paula Clowes        | Head of Assurance                  |
| Paul Turner         | Director, Legal and Assurance      |
| Sophie Crane        | Senior Democratic Services Officer |

### Welcome and Introduction

Cllr Anthony Hedley, Chairman of the Committee, welcomed those in attendance.

## 1. Membership, Apologies, Substitutions and Declarations of Interest

The report of Membership, Apologies and Declarations was received, and it was noted that:

- The Membership of the Audit, Governance and Standards Committee was as shown in the report. Cllr Andrew Johnson had been appointed to the Committee since the last meeting had taken place.
- Apologies had been received from Cllr Susan Barker and Cllr Chris Siddall. Cllr Jane Fleming substituted. Cllr Laureen Shaw and Cllr Lewis Barber joined the meeting online and did not make up part of the quorum.
- No declarations of interests were made.

Cllr Anthony Hedley reminded Members that any interests must be declared during the meeting if the need to do so arose.

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## 2. Minutes and Matters Arising

The public minutes of the meeting held on Monday 15 April 2024 were approved as a correct record.

## 3. Elections of Vice Chairman for the Municipal Year 2024/25

It having been moved by Cllr Tony Hedley and there being no other nominations, it was

### **Resolved:**

That Cllrs Chris Siddall and Anthony McQuiggan be appointed as Vice-Chairmen of the Committee for the 2024/25 municipal year.

## 4. The draft Statement of Accounts and draft Annual Governance Statement for the 2023/24 financial year

Christine Golding, Chief Accountant, introduced the report (AGS/20/24) and presented slides summarising the report, these would be circulated to Members of the Committee. The presentation focused on the relevant statutory timescales, the contents of the accounts and financial statements and the key disclosure notes which had been made. It was noted that in view of delay to completion of the 2021/22 and 2022/23 external audits, the Council's Section 151 Officer had concluded that it was not appropriate to certify the draft Statement of Accounts for the 2023/24 financial year.

It was also clarified that the proposed backstop arrangements for outstanding Local Authority audits had not been confirmed before the general election was called and that therefore those timescales were uncertain.

Christine Golding undertook to provide the following information to the Committee outside the meeting:

- Benchmarking information regarding the council's overall financial position.
- Historical information regarding the volume of queries the Council had received from members of the public with reference to the contents of the accounts, if this data was held.
- Data summarising how much S106 money had been spent vs. that which had been returned.

In summarising the financial position, it was noted that despite high inflation and rising interest rates, the Council had been able to increase usable reserves by £34.5m, which had provided some mitigation in the short term against escalating costs and enabled one-off investment in the Council's key priorities.

In reference to the data presented in the Annual Governance Statement, Mr Atta Ul Haque asked what the total number of LGSCO complaints relating to SEND was for



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the period and Paul Turner undertook to request this information from the relevant service outside the meeting.

Members thanked officers for the hard work that had gone into producing the accounts.

### **Resolved**

That the Committee noted:

- In line with statutory requirements, the draft Statement of Accounts had been published on the Council's website on 31 May 2024.
- As a direct consequence of delays to completion of the external audits for the 2021/22 and 2022/23 financial years:
  - The Section 151 Officer had been unable to sign a statement to confirm that she was satisfied that the draft statement of accounts presented a true and fair view of the financial position of the authority at the end of the 2023/24 financial year.
  - It was not therefore lawfully possible to commence the public inspection period for the 2023/24 Statement of Accounts in line with statutory timescales.
  - A notice must be published on the Council's website to explain the reasons for the delay to commencement of the public inspection period. This notice would not excuse the noncompliance.
  - This may lead to a duty for the monitoring officer to issue a statutory report for the Council to consider.
- The Section 151 Officer would certify the draft Statement of Accounts for the 2023/24 financial year, and commence the public inspection period for 2023/24, upon conclusion of the external audits for the 2021/22 and 2022/23 financial years (which was expected to be on or before 30 September 2024). The comparative figures in the statements that had been presented may need to be changed based on any matter which may come to light during the prior years' audits. While the Council was not aware of any reason why anything would come to light, the whole purpose of the audit was to provide assurance that the accounts were correct.

## **5. Internal Audit and Counter Fraud Annual Report**

Paula Clowes, Head of Assurance introduced the report (AGS/21/24) highlighting the following points of note:

- The Chief Audit Executive's opinion remained one of satisfactory assurance.
- During the 2023/24 financial year internal audit activity had been free from interference in determining the scope of internal auditing, performing work and communicating results.

- 
- There had been more limited assurance reports issued in 2023/24 compared to the previous year, but also more good assurance reports had been issued, in particular on financial controls, where all the key audits had been rated as good.
  - Counter fraud activity had been productive with a successful prosecution resulting in a custodial sentence and disciplinary investigations undertaken alongside business as usual activity.

Paula clarified that she had full support from, as well as access to, Senior Leaders to deliver internal audit activity and that her team was sufficiently well resourced to deliver the audit plan, although recruitment had been difficult at times. The matters relating to Social Media activity which the Committee had been reviewing did not relate to the financial year 2023/24 but had been considered in the production of the audit opinion.

Paula undertook to share the full Downham Primary school audit, which had been referred to in the report, with Mr Atta UI Haque via email.

### **Resolved**

That the Committee noted the Internal Audit and Counter Fraud Annual Report and the opinion on the overall adequacy and effectiveness of the organisation's internal control environment.

## **6. Annual Report of the Audit, Governance and Standards Committee**

Paul Turner, Director, Legal and Assurance, introduced the report (AGS/22/24) which summarised the work on the committee during 2023/24.

### **Resolved**

That the Committee was content with the report.

## **7. Annual Review of Members Gifts and Hospitality Register 2023/24**

Paul Turner, Director, Legal and Assurance, introduced the report (AGS/23/24) which summarised all gifts and hospitality registered by Members for the 2023/24 financial year.

### **Resolved**

That the Committee noted the report.

## **8. Annual Review of Code of Conduct Complaints 2023 24**

Paul Turner, Director, Legal and Assurance, introduced the report (AGS/24/24) and clarified that Members acting in their private capacity unrelated to the council or Members acting as a Member of another local authority with its own code were

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beyond the scope of the ECC code. This was because of the way that section 27(2) of the Localism Act 2011 was drafted.

It was clarified that there was no legislation regarding the length of appointment of independent persons who are used to consider complaints against Members. It was noted that the two independent persons appointed by ECC were used in rotation and did not receive a large volume of work and that the position would be reviewed within the current financial year.

**Resolved**

That the Committee noted the report.

**9. Foreign Travel and Higher Cost Member Travel Annual Report**

Paul Turner, Director, Legal and Assurance, introduced the report (AGS/25/24) which was the first time a full year of data was available from the new reporting system. Paul undertook to consider how the benefits of such activity should be recorded.

**Resolved**

That the Committee noted the report.

**10. Regulation of Investigatory Powers Act 2000 Review of Activity June 2024**

Paul Turner, Director, Legal and Assurance, introduced the report (AGS/26/24) which must be presented to the Committee annually.

**Resolved**

That the Committee noted that no applications for directed surveillance or the use of a CHIS had been made by anyone at ECC since the last report in March 2023.

**11. Work Programme 2024**

The Committee noted the report (AGS/27/24) and it was clarified that the delivery of some business was in the hands of the external auditor, BDO LLP.

**12. Date of next and Future Meetings**

It was noted that the next meeting was scheduled for Monday 15 July 2024.

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It having been moved by Cllr Tony Hedley

It was **resolved** that:

The press and public were excluded from the meeting during the consideration of the remaining items of business on the grounds that they involved the likely disclosure of exempt information falling within Schedule 12A to the Local Government Act 1972, the specific paragraph(s) of Schedule 12A engaged being set out in the report or appendix relating to that item of business.

Two Members voted against the resolution.

|  |                    |
|--|--------------------|
| <b>Report title:</b> Update on the 2021/22 external audit of Essex County Council  |                    |
| <b>Report to</b> Audit, Governance and Standards Committee   |                    |
| <b>Report author:</b> Nicole Wood, Executive Director, Corporate Services  |                    |
| <b>Date of meeting:</b> 29 July 2024   | <b>For:</b> Noting |
| <b>Enquiries to</b> Nicole Wood, Executive Director, Corporate Services <b>email</b> <a href="mailto:nicole.wood@essex.gov.uk">nicole.wood@essex.gov.uk</a> or Christine Golding, Chief Accountant <b>email</b> <a href="mailto:christine.golding@essex.gov.uk">christine.golding@essex.gov.uk</a> |                    |
| <b>Divisions affected:</b> All Essex   |                    |

## 1. Executive summary

- 1.1 The purpose of this report is to present an update by the Council's External Auditor, BDO LLP (BDO) (as appended), on the status of the external audit of Essex County Council (the Council) for the 2021/22 financial year.
- 1.2 BDO currently anticipate being able to complete the 2021/22 external audit by **30 September 2024**.

## 2. Recommendations

- 2.1 That the appended report from BDO LLP on the status of the 2021/22 audit of the Council be noted.

## 3. Background

- 3.1 In relation to the 2021/22 financial year, the Committee has already received:
  - The draft (unaudited) Statement of Accounts on **25 July 2022 (AGS/21/22)**.
  - BDO's Audit Planning Report for the Essex Pension Fund on **31 October 2022 (AGS/23/22)**.
  - BDO's Audit Planning Report for the Council on **28 November 2022 (AGS/31/22)**.
- 3.2 The draft Statement of Accounts for 2021/22 was released for external audit and for public inspection on **1 August 2022**.

- 3.3 In their most recent update to the Audit, Governance and Standards Committee on 25 March 2024 (**AGS/14/24**), BDO advised the Committee that they anticipated being able to issue their audit opinion on the Council's financial statements for 2021/22 in July 2024.
- 3.4 There has been some further slippage in the audit work since then, meaning that it is not yet possible for the External Auditor to issue their Audit Completion Report for 2021/22. The External Auditor has however provided the appended report, which provides an update on the status of their audit work (a separate report on the agenda provides an update on the status of the audit work on the Essex Pension Fund).
- 3.5 BDO now hope to issue their Audit Completion Report and audit opinion for 2021/22 in September 2024.

#### **4. Policy context and Outcomes Framework**

- 4.1 The annual Statement of Accounts summarise the financial performance and financial position for the Council at the end of each financial year, and therefore provide a financial representation of activities against the corporate plan.

#### **5. Financial Implications**

- 5.1 At face value, there are no specific financial implications associated with this report. However, audit fees will be payable to BDO in respect of the 2021/22 audit. Public Sector Auditor Appointments (the PSAA) sets the audit scale fees, and will determine fee variations, where the auditor undertakes more or less work than is assumed by the scale fees.

#### **6. Legal Implications**

- 6.1 The Council is required to produce annual accounts in accordance with the Accounts and Audit Regulations 2015 (as amended). The Council is also required to produce an annual governance statement.

#### **7. Staffing and other resource implications**

- 7.1 The delayed and protracted nature of the external audit for 2021/22 continues to put pressure on the Council's Finance Team, but every effort continues to be made to respond promptly to audit requests and queries.

## **8. List of appendices**

- 8.1 **Appendix A** – Report by BDO LLP on the status of the audit of the Council for the 2021/22 financial year.

## **9. List of Background Papers**

- 9.1 Previous related reports to the Audit, Governance and Standards Committee:

- Draft Statement of Accounts and Annual Governance Statement 2021/22 (**25 July 2022 – AGS/21/22**).
- Update on the 2020/21 and 2021/22 external audits of the Council and Essex Pension Fund (**31 October 2022 – AGS/24/22**).
- 2021/22 Audit Planning Report for Essex County Council (**28 November 2022 – AGS/31/22**).
- Update on the 2020/21 and 2021/22 external audits of the Council and Essex Pension Fund (**30 January 2023 – AGS/01/23**).
- Update on the 2020/21 and 2021/22 external audits of the Council and Essex Pension Fund (**27 March 2023 – AGS/10/23**).
- Update on the 2021/22 and 2022/23 external audits of the Council and Essex Pension Fund (**25 March 2024 – AGS/14/24**).



# Essex County Council

Draft Audit Completion Report: year ended 31 March 2022

Report to the Audit, Governance and Standards Committee



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# Welcome

## Introduction

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We have pleasure in presenting our draft Audit Completion Report to the Audit, Governance and Standards Committee of Essex County Council (the 'Council'). This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the progress and results of our planned audit approach for the year ended 31 March 2022, specific audit findings and areas requiring further discussion and/or the attention of the Audit, Governance and Standards Committee. At the completion stage of the audit it is essential that we engage with those charged with governance on the results of audit work on key risk areas, including significant estimates and judgements made by Management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit, Governance and Standards Committee meeting on 29 July 2024, and to receiving your input. In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

We would also like to take this opportunity to thank the Council for the co-operation and assistance provided during the audit.

Ciaran McLaughlin

Partner

16 July 2024



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# Overview

## Executive summary

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This summary provides an overview of the audit matters that we believe are important to the audit of the financial statements for the Council and Group for the year ended 31 March 2022.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

### Council's responsibilities

The Section 151 Officer (Executive Director, Corporate Services), is responsible for the preparation of the Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that the financial statements give a true and fair view.

Our audit of the financial statements does not relieve the Council of its responsibilities for the preparation of the financial statements.

### Overview

Subject to the successful resolution of the outstanding matters listed on page 33, we anticipate issuing an unmodified audit opinion on the consolidated Group's financial statements for the year ended 31 March 2022.

There were no significant changes to the planned audit approach and no additional significant audit risks have been identified.

No restrictions were placed on our work.

### Audit report

We anticipate issuing an unmodified audit opinion on the financial statements.

### Use of resources

Under proposals to address the current backlog of local government audits, the National Audit Office has consulted on changes to the Code of Audit Practice under which auditors are still expected to undertake value for money work but with a reduced scope.

Auditors will also be permitted to report multiple year's work in a single Auditor's Annual Report. For the Council, we expect to report the outcome of our 2021/22 and 2022/23 VFM work in this way.

### Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Group in accordance with the FRC's Ethical Standard.



# Audit Scope and Materiality

## Executive summary

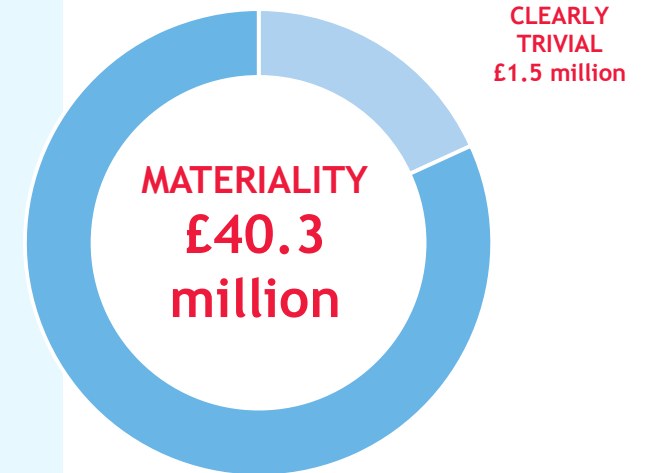
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### Final Materiality

Final materiality for the Group was determined based on 1.75% of gross expenditure for the period. There were no changes to final materiality and triviality from that reported in our planning report

### Unadjusted audit differences

Subject to completion of the outstanding matters on page 33, we have identified audit adjustments that, if posted, would reduce reported surplus on the provision of services by £214,000.



# Key matters

## Executive summary

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### Financial reporting

- ▶ Our audit work completed to date has not identified any non-compliance with the group's accounting policies or the CIPFA code of Practice on Local Authority Accounting in the United Kingdom 2021/22.
- ▶ No significant accounting policy changes have been identified impacting the current year.
- ▶ Going concern disclosures are deemed sufficient
- ▶ The Narrative Report is consistent with the financial statements and our knowledge acquired during the audit
- ▶ The Annual Governance Statement complies with relevant guidance and is not inconsistent or misleading with other information we are aware of.

### Other matters that require discussion or confirmation

- ▶ Control deficiencies identified in relation to IT general controls (see page 20), including:
  - ▶ Weak password parameters
  - ▶ User access reviews
  - ▶ Segregation of duties
  - ▶ Privileged accounts
  - ▶ Third party access
- ▶ Confirmation on fraud, contingent liabilities and subsequent events.
- ▶ Letter of representation.
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# Overview of risks

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  - Fraud in revenue recognition
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As identified in our audit planning report we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the directing of the efforts of the engagement team.

There have been no further risks identified since we presented our Audit Planning Report to the Committee in November 2022. We have updated risk 5 (Valuation of infrastructure) to reflect the passing of the statutory instrument into law.

The following pages describe in more detail each risk in the table below, including the audit procedures completed to address the risk. These procedures have been designed to provide assurance against one or more of five 'assertions' identified as being relevant to that risk. These assertions are as follows:

C - Completeness

E - Existence

A - Accuracy

V - Valuation

P - Presentation

| # | Significant audit risk                                    | Risk Rating | Significant management judgement | Use of experts required | Unadjusted error reported* | Adjusted error reported* | Significant control findings reported | Specific letter of representation point* |
|---|---|-------------|----------------------------------|-------------------------|----------------------------|--------------------------|---------------------------------------|--|
| 1 | Management override                                       | Significant | Yes                              | No                      | No                         | No                       | No                                    | No                                       |
| 2 | Fraud in revenue recognition                              | Significant | No                               | No                      | No                         | No                       | No                                    | No                                       |
| 3 | Expenditure cut -off                                      | Significant | No                               | No                      | Yes                        | No                       | No                                    | No                                       |
| 4 | Valuation of land and buildings and investment properties | Significant | Yes                              | No                      | No                         | No                       | No                                    | Yes                                      |
| 5 | Value of infrastructure                                   | Significant | Yes                              | No                      | No                         | No                       | No                                    | No                                       |
| 6 | Valuation of net pension liability                        | Significant | Yes                              | No                      | No*                        | No                       | No                                    | Yes                                      |
| 7 | Implementation of MyOracle                                | Significant | No                               | No                      | No                         | No                       | No                                    | No                                       |

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\* - Subject to completion of the outstanding matters on page 33

# Risk 1

## Management override of controls

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|                     | C | E | A | V | P | 2022                          | 2021                          |
|---------------------|---|---|---|---|---|-------------------------------|-------------------------------|
| Management override | ✓ | ✓ | ✓ | ✓ | ✓ | All transactions and balances | All transactions and balances |

### Risk Detail

- ▶ Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. We are required to consider this as a significant risk of material misstatement due to fraud.

### Audit Approach

We carried out the following planned audit procedures:

- ▶ Reviewed and verified large and unusual journal entries made in the year; agreed the journals to supporting documentation; and determined key risk characteristics to filter the population of journals.
- ▶ Evaluated of risks arising from automated journals
- ▶ Evaluated findings from an evaluation of the design and implementation of IT general controls
- ▶ Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- ▶ Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.

### Results

Our work has not identified any evidence of systematic bias or management override in the processing of journal entries and other adjustments

Material accounting estimates include the valuation of operational land and buildings and investment properties and the net pension liability. Our audit work on these accounting estimates is set out in the following pages. The audit work performed provided reasonable assurance that the accounting estimates were reasonable and free from management bias.

Our review of the unadjusted audit differences identified to date (see page 18) has not identified any evidence of management bias or deliberate misstatement.

We have not identified any unusual transactions or transactions that are outside the normal course of business.

### Discussion and conclusion

Subject to completion of the outstanding matters on page 33, we have no matters to report.

|  |
|--|
| ● Significant risk                             |
| Elevated risk                                  |
| Moderate risk                                  |
| ● Fraud risk                                   |
| ● Related controls identified to mitigate risk |
| Significant Management estimates & judgements  |
| Controls testing approach                      |
| Data analytics testing approach                |
| ● Substantive testing approach                 |



# Risk 2

## Fraud in revenue recognition

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|                         | C | E | A | V | P | 2022             | 2021             |
|-------------------------|---|---|---|---|---|------------------|------------------|
| Specific revenue grants |   | ✓ | ✓ |   |   | £787.997 million | £784.637 million |

### Risk Detail

- ▶ Auditing standards note that there is a presumed significant risk resulting from the intentional misstatement of revenue
- ▶ The amounts reported in relation to revenue represent information of significant interest to many users of the financial statements. This puts revenue at a greater risk of manipulation, bias and misstatement.
- ▶ For the Council, we consider the risk of fraudulent revenue recognition (primarily through manipulation of financial reporting) to be in respect of the existence and accuracy of revenue grants subject to specific performance conditions.

### Audit Approach

We carried out the following planned audit procedures:

- ▶ Tested a sample of grants included in income to supporting documentation from grant paying bodies and check whether recognition criteria have been met

### Progress and results

We have obtained and reviewed evidence for a sample of revenue grants subject to specific performance conditions and this work is currently subject to our quality review processes.

We will provide an update to the committee meeting at which this report is presented.

|  |
|--|
| ● Significant risk                             |
| Elevated risk                                  |
| Moderate risk                                  |
| ● Fraud risk                                   |
| ● Related controls identified to mitigate risk |
| Significant Management estimates & judgements  |
| Controls testing approach                      |
| Data analytics testing approach                |
| ● Substantive testing approach                 |





# Risk 3

## Expenditure cut-off

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|                             | C | E | A | V | P | 2022                            | 2021                            |
|-----------------------------|---|---|---|---|---|---------------------------------|---------------------------------|
| Expenditure around year end | ✓ |   |   |   |   | All expenditure around year end | All expenditure around year end |

### Risk Detail

- ▶ For net-spending bodies in the public sector there is also risk of fraud related to expenditure. For the Council, we consider the risk of fraud to be in respect of the cut-off of expenditure at year-end.

### Audit Approach

We carried out the following planned audit procedures:

- ▶ Checked that expenditure is recognised in the correct accounting period by substantively testing a sample of expenditure around year-end.

### Progress and results

We have obtained and reviewed evidence for the sample of expenditure around the year end.

Testing of this sample identified one payment of £9,600 made to a supplier in March 2022 in advance of receiving the associated goods which was accounted for as expenditure rather than a prepayment. The projected misstatement arising from this error is shown on the schedule of unadjusted audit differences on page 18 (see adjustment 2).

This work has been subject to the first level of our internal review process. This has identified some further queries regarding a number of items in the sample which the audit team will discuss with officers prior the committee at which this report is presented.

|  |
|--|
| ● Significant risk                             |
| Elevated risk                                  |
| Moderate risk                                  |
| ● Fraud risk                                   |
| ● Related controls identified to mitigate risk |
| Significant Management estimates & judgements  |
| Controls testing approach                      |
| Data analytics testing approach                |
| ● Substantive testing approach                 |



# Risk 4

## Valuation of land and buildings and investment property

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|                       | C | E | A | V | P | 2022            | 2021            |
|-----------------------|---|---|---|---|---|-----------------|-----------------|
| Land and buildings    |   |   |   | ✓ |   | £1.422 billion  | £1.344 billion  |
| Investment properties |   |   |   | ✓ |   | £40.402 million | £38.446 million |

### Risk Detail

- ▶ Local authorities are required to ensure that the carrying value of land and buildings is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date.
- ▶ The Council applies a five-year rolling revaluation programme to its land and buildings, with surplus assets and investment properties revalued annually. A market review is performed at the end of the financial year to determine whether material movements may have occurred since the valuation date. Property revaluations and the market review are undertaken by the Council’s external property advisors.
- ▶ Due to the significant value of the Council’s land, buildings and investment properties, there is a risk over the valuation of these assets due to the high degree of estimation uncertainty and where updated valuations have not been provided for a class of assets at the year-end.

### Audit Approach

We carried out the following planned audit procedures:

- ▶ Reviewed the instructions provided to the valuer and the valuer’s skills and expertise to determine if reliance could be placed on the management expert;
- ▶ Confirmed that the basis of valuation for assets valued in year is appropriate based on their usage;
- ▶ Reviewed the accuracy and completeness of information provided to the valuer, such as rental agreements and sizes;
- ▶ Reviewed assumptions used by the valuer and movements against relevant indices for similar classes of assets;
- ▶ Followed up valuation movements that appeared unusual; and
- ▶ Confirmed that assets not specifically valued in the year have been assessed to ensure their reported values remain materially correct.

|   |
|---|
| ● Significant risk                              |
| Elevated risk                                   |
| Moderate risk                                   |
| Fraud risk                                      |
| ● Related controls identified to mitigate risk  |
| ● Significant Management estimates & judgements |
| Controls testing approach                       |
| Data analytics testing approach                 |
| ● Substantive testing approach                  |



# Risk 4

## Valuation of land and buildings and investment property

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|                       | C | E | A | V | P | 2022            | 2021            |
|-----------------------|---|---|---|---|---|-----------------|-----------------|
| Land and buildings    |   |   |   | ✓ |   | £1.422 billion  | £1.344 billion  |
| Investment properties |   |   |   | ✓ |   | £40.402 million | £38.446 million |

### Progress and results

The instructions provided to the valuer were consistent with our expectations and we concluded that we were able to rely on the management expert.

The basis of valuation for assets valued in the year was appropriate. We have no matters to report regarding inputs into the valuations.

The audit team have reviewed the assumptions used by the valuer and consider them to be reasonable. In accordance with our audit methodology, these assumptions will also be reviewed by our internal property valuation experts to confirm the audit team’s assessment is appropriate.

The audit team are reviewing the Council’s application of indexation to both assets valued as at 1 April 2021 and assets not valued in the year to ensure it is consistent with supporting evidence.

We have no matters to report based on the procedures completed to date. We will provide a verbal update the outcome of the remaining work to the committee to which this report is presented.

|   |
|---|
| ● Significant risk                              |
| Elevated risk                                   |
| Moderate risk                                   |
| Fraud risk                                      |
| ● Related controls identified to mitigate risk  |
| ● Significant Management estimates & judgements |
| Controls testing approach                       |
| Data analytics testing approach                 |
| ● Substantive testing approach                  |



# Risk 5

## Value of infrastructure

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|                | C | E | A | V | P | 2022           | 2021           |
|----------------|---|---|---|---|---|----------------|----------------|
| Infrastructure |   |   |   | ✓ |   | £1.284 billion | £1.227 billion |

### Risk Detail

- ▶ The Council is designated as a Highways Authority under the Highways Act 1980 and is responsible for managing and maintaining public roads within its boundary (except for those which are part of the Strategic Road Network, primarily motorways and major A roads).
- ▶ In fulfilling its responsibilities under the Highways Act 1980, the Council incurs capital expenditure on items such as roads, footways, bridges and street furniture. This expenditure is recognised on the Council's balance sheet as property plant and equipment and is classified as infrastructure.
- ▶ The way in which infrastructure assets are accounted for and the extent to which current practice reflects the requirements of CIPFA's Code of Practice on Local Authority Accounting has recently become a national issue, the details of which have been discussed at previous meetings of the Audit, Governance and Standards Committee.
- ▶ At the time of writing, stakeholders (including local authorities, audit firms and the Department for Levelling Up, Housing and Communities), continue to consider how these issues might be addressed in the medium to long term.
- ▶ In the short term, a statutory instrument is currently expected to come into force towards the end of 2022 which will help address the issues. CIPFA has also consulted on guidance regarding the application of useful economic lives to infrastructure assets.

### Audit Approach

We carried out the following planned audit procedures:

- ▶ Reviewed how management implemented the directions included in the statutory instrument
- ▶ Reviewed and corroborated any changes to accounting estimates relating to the useful economic lives applied to infrastructure assets.

### Results

We concluded our procedures on infrastructure assets as part of our 2020/21 audit. The outcome of this work was reported in our 2020/21 Audit Completion Report presented to the Audit, Governance and Standards Committee on 25 January 2024. Our work confirmed that:

- ▶ The Council correctly applied the provisions of the statutory instrument and amendments to the CIPFA Code of Practice
- ▶ The assumptions used and underlying data were appropriate for the purposes of determining whether UELs previously applied to infrastructure were reasonable.

There have been no changes to the accounting treatment or useful economic lives applied to infrastructure assets for 2021/22 and our findings from 2020/21 remain relevant.

### Discussion and conclusion

We have no matters to report.

|   |
|---|
| ● Significant risk                              |
| Elevated risk                                   |
| Moderate risk                                   |
| Fraud risk                                      |
| ● Related controls identified to mitigate risk  |
| ● Significant Management estimates & judgements |
| Controls testing approach                       |
| Data analytics testing approach                 |
| ● Substantive testing approach                  |



# Risk 6

## Valuation of net pension liability

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|                               | C | E | A | V | P | 2022             | 2021           |
|-------------------------------|---|---|---|---|---|------------------|----------------|
| <b>Net pensions liability</b> |   |   |   | ✓ |   | £766.756 million | £1.043 billion |

### Risk Detail

- ▶ The net pension liability comprises the Council’s share of the market value of assets held in the pension fund and the estimated future liability to pay pensions.
- ▶ The valuation of the pension liability is a complex calculation involving a number of significant judgements and assumptions. The actuarial estimate of the pension fund liability uses information on current, deferred and retired member data and applies various actuarial assumptions over pension increases, salary increases, mortality, commutation take up and discount rates to calculate the net present value of the liability.
- ▶ There is a risk that the membership data and cash flows provided to the actuary at year end may not be accurate, and that the actuary uses inappropriate assumptions to value the liability. Relatively small adjustments to assumptions used can have a material impact on the Council’s share of the scheme liability.

### Audit Approach

- We carried out the following planned audit procedures:
- ▶ Agreed the disclosures to the information provided by the pension fund actuary;
  - ▶ Reviewed the competence of the management expert (actuary);
  - ▶ Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data;
  - ▶ Reviewed the controls in place for providing accurate membership data to the actuary;
  - ▶ Contacted the pension fund audit team and requesting confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data; and
  - ▶ Checked that any significant changes in membership data have been communicated to the actuary.

|   |
|---|
| ● Significant risk                              |
| Elevated risk                                   |
| Moderate risk                                   |
| Fraud risk                                      |
| ● Related controls identified to mitigate risk  |
| ● Significant Management estimates & judgements |
| Controls testing approach                       |
| Data analytics testing approach                 |
| ● Substantive testing approach                  |



# Risk 6

## Valuation of net pension liability

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|                               | C | E | A | V | P | 2022             | 2021           |
|-------------------------------|---|---|---|---|---|------------------|----------------|
| <b>Net pensions liability</b> |   |   |   | ✓ |   | £766.756 million | £1.043 billion |

### Results and progress

The most recent actuarial valuation of the pension fund liability at the point at which the 2021/22 financial statements were prepared was carried out during the 2019/20 year to calculate the liability at 31 March 2019. The transactions and balances relating to the pension fund liability recognised in the financial statements originally presented for audit were based on the roll forward of data from the 2019 triennial valuation.

This estimate has since been superseded by the actuarial valuation of the fund at 31 March 2022. This valuation took place during 2022/23 and the results were published by the actuary in March 2023.

Accounting and auditing standards require us to consider information which may affect the value of transactions and balances recognised in the financial statements and any associated disclosures, up to the date at which our audit opinion is signed. The Council has obtained a revised IAS 19 report from its actuary and updated the 2021/22 financial statements to reflect the outcome of the latest triennial valuation.

The disclosures in the financial statements agree to the information provided by the pension fund actuary. We concluded that we were able to rely on the management expert.

We have agreed the revised disclosures to the actuary's report and have not identified any discrepancies. We are satisfied that we can place reliance on the actuary.

We have reviewed the reasonableness of the assumptions used by drawing on the work of a consulting actuary (acting as auditor's expert). This has not identified any assumptions which are outside of the expected range.

The Pension Fund audit team are currently completing their work on the accuracy and completeness of the membership data provided to the actuary to support the latest triennial valuation. We will request confirmation of the outcome of this work from the Pension Fund team to enable us to conclude our procedures on the valuation of the net pension liability.

|   |   |
|---|---|
| ● | Significant risk                              |
|   | Elevated risk                                 |
|   | Moderate risk                                 |
|   | Fraud risk                                    |
| ● | Related controls identified to mitigate risk  |
| ● | Significant Management estimates & judgements |
|   | Controls testing approach                     |
|   | Data analytics testing approach               |
| ● | Substantive testing approach                  |



# Risk 7

## Implementation of MyOracle

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|                               | C | E | A | V | P | 2022                          | 2021                          |
|-------------------------------|---|---|---|---|---|-------------------------------|-------------------------------|
| All transactions and balances | ✓ |   | ✓ |   |   | All transactions and balances | All transactions and balances |

### Risk Detail

- ▶ On 1 November 2021, the Council implemented a new, cloud-based enterprise resource planning system. This involved the migration of existing financial data from the previous system to the new system.
- ▶ There is a risk that data from the previous system has not been completely or accurately transferred to the new system, which may result in errors in the Statement of Accounts.

### Audit Approach

We carried out the following planned audit procedures:

- ▶ Our IT audit specialists reviewed the project management arrangements employed for the implementation of the new system to ensure they were consistent with best practice and expected controls were in place
- ▶ Reviewed and tested reconciliations performed by the Council between the data in the new system and that in the old system.

### Progress and results

Our IT audit specialists have completed their review of the project management arrangements and there are no matters to report.

The audit team are completing the testing of the detailed reconciliations performed by the Council.

We will provide an update to the committee meeting at which this report is presented.

|  |
|--|
| ● Significant risk                             |
| Elevated risk                                  |
| Moderate risk                                  |
| Fraud risk                                     |
| ● Related controls identified to mitigate risk |
| Significant Management estimates & judgements  |
| Controls testing approach                      |
| Data analytics testing approach                |
| ● Substantive testing approach                 |



# IT Audit Approach

## BDO Advantage Guided Data Analytics

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### Overview

BDO Advantage is our in house developed data analytics software.

Our Advantage Data Analytics specialists transform your transactional, bank and payroll data into our BDO Advantage solutions to enable performance of data analytics tests (DATs) and Risk Assessment Data Analytics (RADAs) which have been scoped based on the risk areas identified in our planning report

The BDO Advantage Data Analytics Solutions we have used are:

| Analysers                          | Used For          | Narrative  |
|------------------------------------|-------------------|--|
| Advantage Financial Analyser (AFA) | Audit of Journals | The AFA enables identification of fraud and other areas where risks of material misstatement is present as well as deeper analysis and sample extraction of data when performing audits of journals. |



# Matters requiring additional consideration

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## Fraud

Whilst the Council's officers have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the audit plan on 28 November 2022.

## Laws and regulations

The most significant consideration(s) for your business are:

- Local Government Acts of 1972 and 2003
- Local Government Finance Acts of 1988, 1992 and 2012
- Local Audit and Accountability Act 2014
- Accounts and Audit Regulations 2015
- VAT legislation
- PAYE legislation
- The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 - this is specifically in respect of the statutory override for infrastructure assets accounting

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

## Related parties

Whilst the Council responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud.

We did not identify and significant matters in connection with related parties

# Unadjusted audit differences: Detail

## Details for the current year

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These are the matters identified by our audit work to date and are subject to the completion of outstanding matters on page 33.

| Unadjusted audit differences   | Income and expenditure |       |         | Balance sheet |         |
|--|------------------------|-------|---------|---------------|---------|
|  | £'000                  | £'000 | £'000   | £'000         | £'000   |
| Surplus on the provision of services for the year before adjustments   | (27,324)               |       |         |               |         |
| Adjustment 1: Impact of prior period uncorrected misstatements brought forward                                 |                        |       |         |               |         |
| DR Net cost of services - gross expenditure  | 2,552                  | 2,552 |         |               |         |
| CR General reserves - opening balance at 1 April 2021  |                        |       |         |               | (2,552) |
| Adjustment 2: Prepayment incorrectly recognised as expenditure (factual error £9,600) (projected misstatement) |                        |       |         |               |         |
| DR Short term debtors - prepayments  |                        |       |         | 2,388         |         |
| CR Expenditure   | (2,388)                |       | (2,388) |               |         |
| Total unadjusted audit differences   | 214                    | 2,552 | (2,388) | 2,388         | (2,552) |
| Surplus on the provision of services for the year after adjustments  | (27,110)               |       |         |               |         |

# Adjusted audit differences: Detail

## Details for the current year

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These are the matters identified by our audit work to date and are subject to the completion of outstanding matters on page 33.

As described on page 15, the Council have updated transactions and balances relating to the net pension liability following completion of the latest triennial valuation of the pension fund. These adjustments are not shown in the table below as our work on these balances remains in progress, but the amendments will be included in the final version of our completion report.

| Adjusted audit differences  | Income and expenditure |               |                | Balance sheet |                |
|---|------------------------|---------------|----------------|---------------|----------------|
|   | £'000                  | £'000         | £'000          | £'000         | £'000          |
| <b>Surplus on the provision of services for the year before adjustments</b>   | <b>(36,976)</b>        |               |                |               |                |
| Adjustment 1: Financing and investment income and expenditure - movements in the value of investment properties reclassified from expenditure to income (factual)       |                        |               |                |               |                |
| DR Financing and investment - gross expenditure   | 3,751                  | 3,751         |                |               |                |
| CR Financing and investment - other income  | (3,751)                |               | (3,751)        |               |                |
| Adjustment 2: Cumulative impact of other adjusted differences relating to finance and investment income and IAS 19 individually below our reporting threshold (factual) |                        |               |                |               |                |
| DR Surplus on provision of services - gross expenditure   | 2,447                  | 2,447         |                |               |                |
| CR Surplus on provision of services - other income  | (2,144)                |               | (2,144)        |               |                |
| CR Net Pensions Liability   |                        |               |                |               | (303)          |
| Adjustment 3: Adjustment to 2021/22 infrastructure depreciation charge to reflect updated UELs (judgemental)  |                        |               |                |               |                |
| DR NCOS expenditure - Highways, maintenance and sustainable transport   | 9,349                  | 9,349         |                |               |                |
| CR Depreciation - Infrastructure assets   |                        |               |                |               | (9,349)        |
| <b>Total Adjusted audit differences</b>   | <b>9,652</b>           | <b>15,547</b> | <b>(5,895)</b> | <b>-</b>      | <b>(9,652)</b> |
| <b>Surplus on the provision of services for the year after adjustments</b>  | <b>(27,324)</b>        |               |                |               |                |

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We are required to report to you, in writing, deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Audit, Governance and Standards Committee.

As the purpose of the audit is for us to express an opinion on the Group's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

| Area                                       | Observation & implication  | Recommendation   | Management response |
|--|--|--|---------------------|
| A4W, Capita Pay 360<br>Password parameters | <p>Our inspection of password settings identified that there were parameters not configured as per good practice. There were also password parameters that were not available under the current version of the applications reviewed.</p> <p>Weak password and security settings increase the risk of unauthorised access by enabling potential intruders to perform activities which could impact and compromise confidentiality, integrity and availability of the application and data.</p> | <p>Establish and formalize an Information Security Policy with the password and settings policy to include recommended settings.</p> <p>Configure the password and login parameters in Active Directory and other applications to comply with the updated password and security settings policy.</p> | TBC                 |

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| Area                                   | Observation & implication   | Recommendation  | Management response |
|--|---|---|---------------------|
| A4W and Capita Pay 360<br>New starters | <p>Our inspection of newly created user accounts in A4W identified one account for which there was no supporting documentation to validate the authorisation, approval, and the appropriateness of roles granted to the user account. We noted that this user account provided read-only access to A4W which lessens the risk.</p> <p>For Capita Pay 360, we were unable to confirm what permissions were provided to one new starter as those permissions were modified shortly after the starter request was submitted. This was due to her not being assigned the correct permissions during her starter process.</p> <p>The absence of an audit trail to support the permissions granted to new starters may make accountability for transactions difficult to establish and increases the risk that unauthorised transactions may be process.ed.</p> | <p>Establish policy guidelines for user access administration based on the current practice at the Council.</p> <p>Ensure that there is proper documentation and approval prior to granting access to new users or modifying access for existing users.</p> | TBC                 |

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| Area                    | Observation & implication  | Recommendation   | Management response |
|-------------------------|--|--|---------------------|
| A4W and Capital Pay 360 | We identified the following matters relating to user access review for the following applications.   | Perform periodic reviews of user access rights to ensure permissions are consistent with the current responsibilities assigned to all personnel.   | TBC                 |
| User Access Reviews     | <p>A4W:</p> <ol style="list-style-type: none"> <li>1) Although evidence was provided of requests to remove users from the RDS portal, no other evidence could be provided to demonstrate completeness of the user listing used to carry out the user access review.</li> <li>2) The user access review is carried out by one person and is not independently approved.</li> <li>3) No review of user access permissions is carried out during the review.</li> </ol> <p>For Capita Pay 360, no user access review was carried out during 2021/22.</p> <p>There is a risk that existing users may have permissions which are inconsistent with their role. This reduces the effect of a segregation in duties and increases the risk of unauthorised changes to key data.</p> <p>There is a risk that user accounts may remain active on the system after individuals have left the organisation. This increases the risk of unauthorised access via such accounts which may result in incorrect and/or unapproved changes to key data.</p> | <p>Based on results of the review undertake necessary action and investigate unusual logs as deemed necessary. Document the review made by signing off and dating the logs reviewed.</p> <p>For A4W, ensure the completeness of the user listing that is being used to conduct the user access review.</p> |                     |

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| Area                                      | Observation & implication  | Recommendation  | Management response |
|---|--|---|---------------------|
| Oracle, A4W and Capital Pay 360           | Based on our testing of the change management procedures, we identified the following matters.   | Test and approve application changes before they are moved into the production environment. | TBC                 |
| Segregation of duties                     | Two change tickets in A4W and Capita 360 which were implemented to the production environment, did not have supporting documentation as to the implementer or details of the change. The A4W change was implemented on 16/01/2022, and the date of implementation for the Capita 360 change is unknown.  | Retain evidence of testing and approval for all changes.                                    |                     |
|   | One change ticket relating to Oracle was developed and migrated by the same user.  |   |                     |
|   | There is a risk that inappropriate changes are made to application systems or programs that contain relevant automated controls (i.e., configurable settings, automated calculations, and automated data extraction) or report logic.  |   |                     |
| Capita Pay 360<br>Access to job scheduler | During our inspection of the user listing for Capita Pay 360, we were informed that the role "ADMIN" should be granted to IT personnel only to access the job scheduler. However, we identified seventeen business users who were granted the ADMIN role and could access the job scheduler.<br><br>Non-IT users should not have access to the job scheduler as best practice, especially finance users. There is a risk that inappropriate modification of batch job settings being made resulting in batch job failures. | Restrict the job scheduler access (ADMIN, ADMIN2, and TSADMIN) to IT personnel only.        | TBC                 |

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| Area  | Observation & implication  | Recommendation   | Management response |
|---|--|--|---------------------|
| <p>Oracle, A4W and Capital Pay 360</p> <p>Segregation of duties of privileged user accounts</p> | <p>We identified that there is no independent monitoring of activity performed by privileged accounts, either at an application or database level.</p> <p>We identified four user accounts in Oracle, eight in A4W and twenty in Capita Pay 360 which have privileged permissions.</p> <p>Granting powerful profiles and roles to numerous individuals increases the risk of unauthorized modifications to systems and data.</p> <p>There is a risk that system default user IDs could be exploited to perform malicious activities in the applications.</p> | <p>Assign system access to on a business need only basis</p> <p>Review existing user access assignments and revoke inappropriate access including those identified by our work.</p> <p>Perform periodic user access review of the user accounts with administrative function in Domain Admin Group and identify the specific users/custodians of these accounts.</p> | <p>TBC</p>          |
| <p>A4W</p> <p>Duplicate user IDs</p>  | <p>Our evaluation of the A4W user listing identified 39 duplicate user accounts with the 'HOMES' access role. We confirmed that the 'HOMES' role does not provide access to A4W application data and that the users have not accessed these accounts on A4W, as they utilise a separate portal to submit forms.</p> <p>The employment of generic/shared/duplicate user IDs reduces user accountability and makes it difficult to produce an audit trail that can track activities on the system to a specific user.</p>                                      | <p>Disable any accounts that have duplicate IDs.</p>   | <p>TBC</p>          |



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| Area                                 | Observation & implication   | Recommendation  | Management response |
|--------------------------------------|---|---|---------------------|
| Oracle, A4W<br>Generic user accounts | <p>Our inspection of the active user lists for Oracle and A4W identified a number of generic user accounts as explained further below:</p> <ol style="list-style-type: none"> <li>1) There were two generic user account identified in A4W which had having privilege access.</li> <li>2) There were four generic user accounts in Oracle, three of which had privilege access. We were not provided with details of the nature of these accounts and how access is managed.</li> <li>3) Monitoring of generic user accounts does not exist across these applications.</li> </ol> <p>Inappropriate and unnecessary access to generic accounts raises the risk of unwanted modifications being made the application. The risk is further increased as there are generic accounts with privileged access.</p> | <p>‘Park’ generic user accounts in A4W when they are not required for use by the third-party vendor. This will decrease the risk of inappropriate use of the account.</p> <p>Review generic user accounts in Oracle, including who has access and the functionality available to users of the accounts. Design and implement a policy for the use of these accounts and monitor account activity against this policy.</p> | TBC                 |
| Oracle<br>Data processing management | Evidence for the Data Processing Management controls in Oracle were not shared hence we could not ascertain if any control exists and are effective.  | Not applicable.   | TBC                 |

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| Area  | Observation & implication  | Recommendation  | Management response |
|---|--|---|---------------------|
| <p>Oracle, A4W and Capital Pay 360</p> <p>Third Party Assurance Reviews</p> | <p>The Council is engaged in an outsourced IT services agreement. Due to this setup, our audit on program changes was limited to inspection and assessment of contracts, Service Level Agreements (SLAs) and related documentation provided by the service provider. These documents were very comprehensive</p> <p>However, there is limited assurance being provided to the Council regarding the adequacy and effectiveness of the service provider's control environment and the existence of any deficiencies as no service organisation control reports are provided by the following third parties.</p> <ol style="list-style-type: none"> <li>1. A4W - Access Group</li> <li>2. Oracle - Evosys and Fujitsu</li> <li>3. Capita Pay 360 - Fujitsu and Capita</li> </ol> <p>There is an increased risk that the Council's information resources will be subjected to confidentiality, integrity and availability issues.</p> | <p>Require the third-party service provider to periodically present a third-party service organisation controls or other form of recognised assurance report to the Council.</p> <p>Review reports for exceptions identified and determine the impact on the Council's own control environment.</p> | <p>TBC</p>          |

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## Opinion on financial statements

Subject to completion of the outstanding matters on page 33, we anticipate issuing an unmodified opinion on the financial statements.

There are no matters disclosed in the financial statements that we wish to draw attention to by way of 'emphasis of matter'.

## Going concern

Our report will:

- ▶ state our conclusion that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- ▶ state that we have not identified a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue;

## Irregularities, including fraud

Our report will contain an explanation of the extent to which the audit was considered capable of detecting irregularities, including fraud. Irregularities in this context means non-compliance with laws or regulations.

## Comments on the strategic report and directors' report

We have identified no material misstatements in the statutory other information accompanying the financial statements.

## Other information

We have reviewed the other information accompanying the financial statements in the Group's annual report. We have not identified any material misstatements that would need to be referred to in our report.



# Additional matters we are required to report

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|   | Issue  | Comments  |
|---|--|---|
| 1 | Significant difficulties encountered during the audit.     | No exceptions to note.                                |
| 2 | Written representations which we seek.                     | We enclose a copy of our draft representation letter. |
| 3 | Any fraud or suspected fraud issues.                       | No exceptions to note.                                |
| 4 | Any suspected non-compliance with laws or regulations.     | No exceptions to note.                                |
| 5 | Significant matters in connection with related parties.    | No exceptions to note.                                |
|   | <b>Group matters</b>                                       |   |
| 6 | Limitations on the audit where information was restricted. | No exceptions to note.                                |
| 7 | Any fraud or suspected fraud at group or component level.  | No exceptions to note.                                |

# Letter of Representation

## Draft letter for review

Essex County Council / address  
To be printed on letter headed paper

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BDO LLP  
First Floor, Franciscan House  
51 Princes Street  
Ipswich I  
P1 1UR

Dear Sirs

### Financial statements of Essex County Council for the year ended 31 March 2022

We confirm that the following representations given to you in connection with your audit of the Group and the Council's financial statements for the year ended 31 March 2022 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council and other Group entities.

The Executive Director, Corporate Services has fulfilled her responsibilities for the preparation and presentation of the Group and the Council financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Group and the Council as of 31 March 2021 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the Council have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of management and other meetings have been made available to you.

### Going concern

We have made an assessment of the Group and the Council's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Group and the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Group and the Council's ability to continue as a going concern.

### Laws and regulations

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

### Post balance sheet events (PBSE)

With the exception of the issue relating to Reinforced Autoclaved Aerated Concrete (RAAC) in schools, for which a PBSE disclosure has been added to the Statement of Accounts, there have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

# Letter of Representation

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### Fraud and error

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

We have disclosed to you all allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

### Misstatements

We attach a schedule showing uncorrected misstatements that you have identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

### Related party transactions

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

Other than as disclosed in note 37 to the financial statements, there are no loans, transactions or arrangements between any Group entity and Council members or their connected persons at any time in the year which were required to be disclosed.

The disclosures in the financial statements concerning the controlling party of the Council are accurate.

### Carrying value and classification of assets and liabilities

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the consolidated Group and Council financial statements.

### Accounting estimates

#### a) Pension fund assumptions

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

### [TO BE UPDATED FOLLOWING COMPLETION OF OUR WORK ON TRIENNIAL VALUATION:

- RPI increase xx%
- CPI increase xx%
- Salary increase xx%
- Pension increase xx%
- Discount rate xx%
- Mortality:
- Current pensioners - male xx years and female xx years
- Future pensioners - male xx years and female xx years
- Commutation: pre-April 2008 - xx% / post-April 2008 - xx%

We consider these assumptions to be appropriate for the purposes of estimating the pension liability in accordance with the Code and IAS 19.]

# Letter of Representation

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## b) Valuation of land and buildings, infrastructure assets and investment property

We are satisfied that the useful economic lives of land and buildings, and their constituent components, used in the valuation of land and buildings, and the calculation of the depreciation charge for the year, are reasonable.

We confirm that the valuations applied to land and buildings revalued in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and current market prices.

We are satisfied that the useful economic lives of infrastructure assets, and their constituent components, used in the valuation of infrastructure assets, and the calculation of the depreciation charge for the year, are reasonable.

### Litigation and claims

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards.

### Confirmation

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and member has taken all the steps that they ought to have taken as a director or member of the Council in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Nicole Wood  
Executive Director Corporate Services

XX 2024

Councillor Anthony Hedley  
Chair of the Audit, Governance and Standards Committee

XX 2024

# Outstanding matters

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The following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on their status at the Audit, Governance and Standards Committee meeting at which this report is considered:

- ▶ Conclusion of substantive testing relating to the following area
  - ▶ Valuation of land and buildings (see page 12)
  - ▶ Valuation of net pension liability (see page 15)
  - ▶ Testing reconciliations relating to the implementation of MyOracle (see page 16)
  - ▶ Schools' payroll testing
  - ▶ Related parties
- ▶ Completion of audit procedures relating to contingencies and commitments and subsequent events
- ▶ Clearance of technical review of financial statements
- ▶ Completion of manager and partner review and clearance of review points arising by the audit team
- ▶ Completion of Engagement Quality Review and Audit Quality Improvement Team reviews and clearance of review points by the audit team
- ▶ Receipt of final version of financial statements and completion of audit checks to confirm agreed changes have been made, arithmetical accuracy and internal consistency
- ▶ Obtain letter of representation





# Independence and fees

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### Independence

We confirm that the firm, and the engagement team conducting the audit comply with relevant ethical requirements including the Financial Reporting Council's (FRC's) Ethical Standard as appropriate and are independent of the Pension Fund.

There were no non-audit services provided by us to the Pension Fund during the period and up to the date of this Audit Completion Report.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence

### Fee summary

Our proposed audit fees are shown in the table to the left.

|  | Fees (£)               |                       |
|--|------------------------|-----------------------|
|  | 2021/22<br>(Proposed)  | 2020/21<br>(Proposed) |
| Statutory audit: Code Scale fee  | <sup>(1)</sup> 126,165 | 126,165               |
| Additional recurring audit fee: audit approach   | <sup>(2)</sup> 33,500  | 8,155                 |
| Remote working   | -                      | 13,400                |
| Infrastructure assets  | -                      | 12,000                |
| Additional audit fee: risk related work for 2021/22  | 8,600                  | -                     |
| Additional recurring audit fee: new use of resources approach                                    | <sup>(3)</sup> 13,000  | 13,000                |
| Additional fee: review of SELEP arrangements   | -                      | 4,700                 |
| Additional recurring audit fee: IT environment and general controls                              | 27,200                 | -                     |
| Reduction in 2020/21 Code scale fee to reflect removal of requirement to complete WGA procedures | -                      | (£2,700)              |
| <b>Total proposed audit fees</b>   | <b>208,865</b>         | <sup>(4)</sup> TBC    |
| Fees for non-audit services  |                        |                       |
| Teachers' Pensions - agreed upon procedures  | 13,500                 | 13,500                |
| <b>Total proposed fees</b>   | <b>220,515</b>         | <sup>(4)</sup> TBC    |

### Fee variances

(1) The Code fee quoted is the PSAA scale fee of £126,165

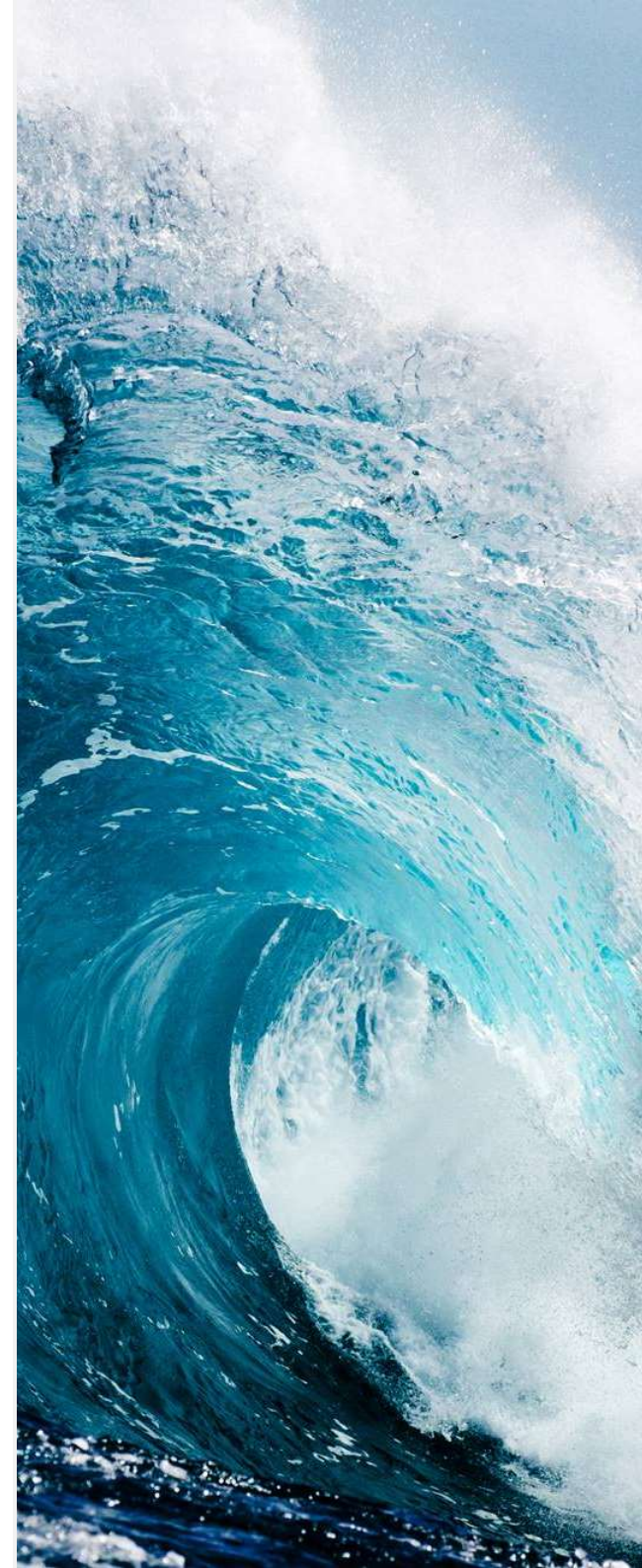
(2) The audit fee relating to the audit approach reflects a recurring increase in the volume and detail of property valuations work.

(3) The audit fee is based on audit scope under the Code of Audit Practice. A new Code became effective for periods commencing 1 April 2020 which significantly increased the work of auditors for reporting on a body's use of resources.

(4) Discussions with officers regarding the proposed 2020/21 fee remain ongoing. We will report the final fee to members once agreed. The fee will also be subject to approval by Public Sector Auditor Appointments Ltd.

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# FRC Ethical Standard

Issued in December 2019

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It is now around three years since the FRC's Revised Ethical Standard 2019 ('ES') came into force. It aimed to further strengthen auditor independence and enhance confidence in the profession and was, in many ways, a precursor to the Corporate Governance and Audit Reform debate

that is still ongoing. Although the ES is now well-established it is worth taking time to reconsider some of its most important changes and ensure your internal policies and procedures are effective.

| Key headlines  | Impact   |
|--|--|
| <b>The objective, reasonable &amp; informed third party test</b> | Reinforcement that ethical principles take priority over rules. A need to take care where particular facts and circumstances are either not addressed directly by the rules or might appear to 'work around' the rules, or result in an outcome that is inconsistent with the general principles and the public interest.  |
| <b>Extra-territorial impact</b>                                  | For group audits where the audited entity has overseas operations, the ES will require all BDO Member firms to be independent of the UK audited entity and its UK and overseas affiliates in accordance with the ES, irrespective of if their audit work is relied upon.   |
| <b>Contingent fees</b>   | Non audit services with contingent or success-based fee arrangements will be prohibited for audited entities.  |
| <b>Secondments</b>   | All secondments/loan staff to audited entities are prohibited with the exception of secondments to public sector entities.   |
| <b>Recruitment and remuneration services</b>                     | Prohibition on providing remuneration services to audited entities such as advising on the quantum of the remuneration package or the measurement criteria for calculation of the package. In addition, the prohibition on providing recruitment services to an audited entity that would involve the firm taking responsibility for, or advising on the appointment of, any director or employee of the entity.   |
| <b>Non audit services to a public interest entity (PIE)</b>      | Moving to a "white-list" of permitted non audit services for PIEs. The white-list largely consists of services which are either audit-related or required by law and/or regulation. The provision of services not on the white-list are prohibited. The ES separates those permitted services which are exempt from the 70% fee cap and those services which are subject to the fee cap.   |
| <b>Other entities of public interest ('OEPI')</b>                | OEPI is a new term in the ES. The FRC have imposed the 'white-list' applicable to PIE audited entities to also apply to OEPIs. OEPIs are entities which, according to the FRC, do not meet the definition of a PIE but nevertheless are of significant public interest to stakeholders. They include AIM listed entities which exceed the threshold to be an <i>SME listed entity</i> - generally those with a market cap of more than €200m; Lloyd's syndicates; Private sector pension schemes with more than 10,000 members and more than £1billion of assets; Entities that are subject to the governance requirements of The Companies (Miscellaneous Reporting) Regulations 2018 (SI/2018/860), excluding fund management entities which are included within a private equity or venture capital limited partnership fund structure. These would be entities which: <ul style="list-style-type: none"> <li>- Have more than 2000 employees and / or</li> <li>- Have a turnover of more than £200 million and a balance sheet total of more than £2 billion.</li> </ul> <p>The FRC have noted that the rules applicable to OEPIs will apply from periods commencing on or after 15 December 2020.</p> |

# FRC Practice Aid for Audit Committees

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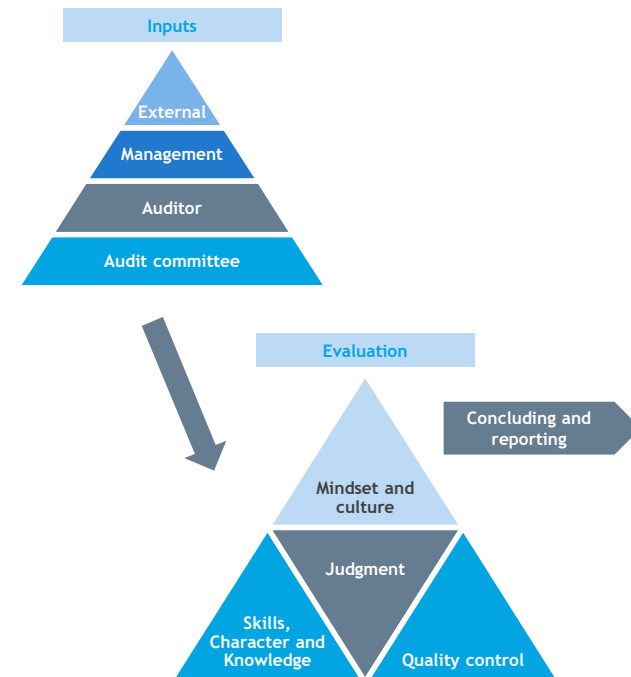
The Financial Reporting Council (FRC) issued an updated practice aid for audit committees in December 2019 and a full copy can be found on the [FRC website](#). In their practice aid the FRC note: 'The directors of a company (the Board as a whole) are responsible for ensuring its financial statements are prepared in accordance with the applicable financial reporting framework and for overseeing the company's internal control framework. A high-quality audit provides investors and other stakeholders with a high level of assurance that the financial statements of an entity give a true and fair view and provide a reliable and trustworthy basis for taking decisions.'

The practice aid then discusses how the role of audit committees in serving the interests of investors and other stakeholders is through their independent oversight of the annual corporate reporting process including the audit. The FRC highlight that the responsibility for appointing the external auditor, approving their remuneration and any non audit services work, ensuring their independence and challenging them over the quality of their work falls to the audit committee and can play a key role in facilitating a high quality audit (see note below).

It gives guidance for Audit Committees in the following areas:

- ▶ Audit tenders and the tender process including audit fee negotiations and auditor independence
- ▶ A model for use by audit committees in making an overall assessment of an external auditor including inputs, evaluations and concluding
- ▶ Transparency - reporting to the Board on how the audit committee has discharged these responsibilities
- ▶ Some guidance on key areas of audit judgement

The provision of high quality audits are a key focus of FRC and the new Executive Director of Supervision, David Rule, sent a letter to all audit firms in November 2019 explaining the factors he would expect to see in place in order to facilitate the delivery of high quality audits. A copy of the letter can be found on the [FRC website](#)



# Our responsibilities

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## Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your financial statements. We report our opinion on the financial statements to the members of the Trust Board.

We read and consider the 'other information' contained in the Annual Report such as the Performance Report and the Accountability Report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

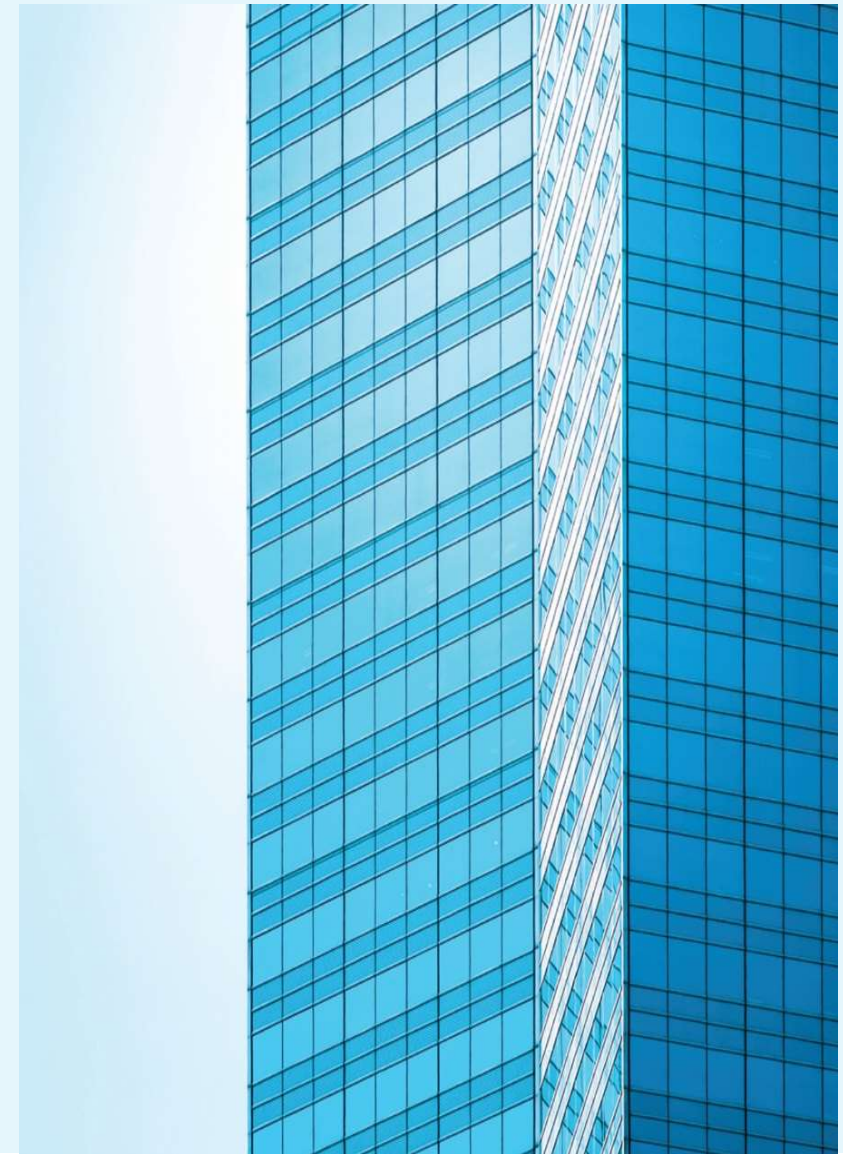
For statutory other information, such as the auditable parts of the Remuneration and Staff Report, we will form an opinion on whether the information given in the other information is consistent with the financial statements and our knowledge obtained in the audit and whether the audited disclosures have been prepared in accordance with applicable legal requirements.

We report by exception, any significant weaknesses identified our work on the Trust's value for money arrangements and a summary of associated recommendations made.

We review the Whole of Government Accounts (WGA) return provided to NHS Improvement and express an opinion on the return whether it is consistent with the audited financial statements.

## What we don't report

Our audit is not designed to identify all matters that may be relevant to the Audit and Assurance Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist



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## Those Charged with Governance (TCWG)

References in this report to Those Charged With Governance are to the Trust Board as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the We request feedback from Audit and Assurance Committee.

## Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

| Communication required        | Date (to be) communicated | To whom                                   | Communication method          |
|-------------------------------|---------------------------|---|-------------------------------|
| Audit Planning Report         | 28 November 2022          | Audit, Governance and Standards Committee | Audit Planning Report         |
| Draft Audit Completion Report | 29 July 2024              | Audit, Governance and Standards Committee | Draft Audit Completion Report |
| Final Audit Completion Report | 23 September 2024         | Audit, Governance and Standards Committee | Audit Completion Report       |
| Auditor's Annual Report       | 23 September 2024         | Audit, Governance and Standards Committee | Auditor's Annual Report       |

# ISA (UK) 315 Revised (June 2020) identifying and assessing the risks of material misstatement

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The standard introduces significant changes in approach to risk identification and assessment, which are intended to drive a more focused response from auditors to identified risks. There are some implications for the way that we carry out our audits which include the following:

- ▶ Our risk assessment procedures are to be designed and performed in such a way that the information obtained provides an appropriate basis to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion level. Approaching risk assessment procedures in this way facilitates targeted test design, focusing on the areas that really matter.
- ▶ We will put an increased focus on understanding the IT environment and the entity's system of internal control
- ▶ The way that we assess risk will be enhanced to consider:
  - ▶ Inherent Risk of material misstatement and Control Risk separately
  - ▶ Clearly defined inherent risk factors to enhance inherent risk assessment
  - ▶ A broader spectrum of risk categories which will involve a more granular consideration of risk
- ▶ A new stand-back requirement for material classes of transactions, balances and disclosures.

Two of the key benefits to these changes are expected to be:

- ▶ An ability to scale and flex our audit approach to the specific circumstances of the audited entity
- ▶ Clearer link between the risk and the resulting work effort, to ensure we put audit effort where it is needed.

#### Effective Date

- ▶ The ISA is effective for audits of financial statements for periods beginning on or after 15 December 2021.

#### How does this impact your audit?

- ▶ BDO Risk Identification and Assessment Methodology has been revised to comply with the requirements of the revised ISA.
- ▶ Your audit team expect to spend more time understanding the entity at the planning phase of the audit, spending more time planning, and the planning will be a more interactive and iterative process.
- ▶ Audit fees reflect our increased investment in complying with these new requirements.
- ▶ As a product of this additional focus, you may receive greater insight into your control environment and have a better understanding of our assessment of risks and what could go wrong in your financial reporting processes.



# Audit quality

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## BDO is totally committed to audit quality

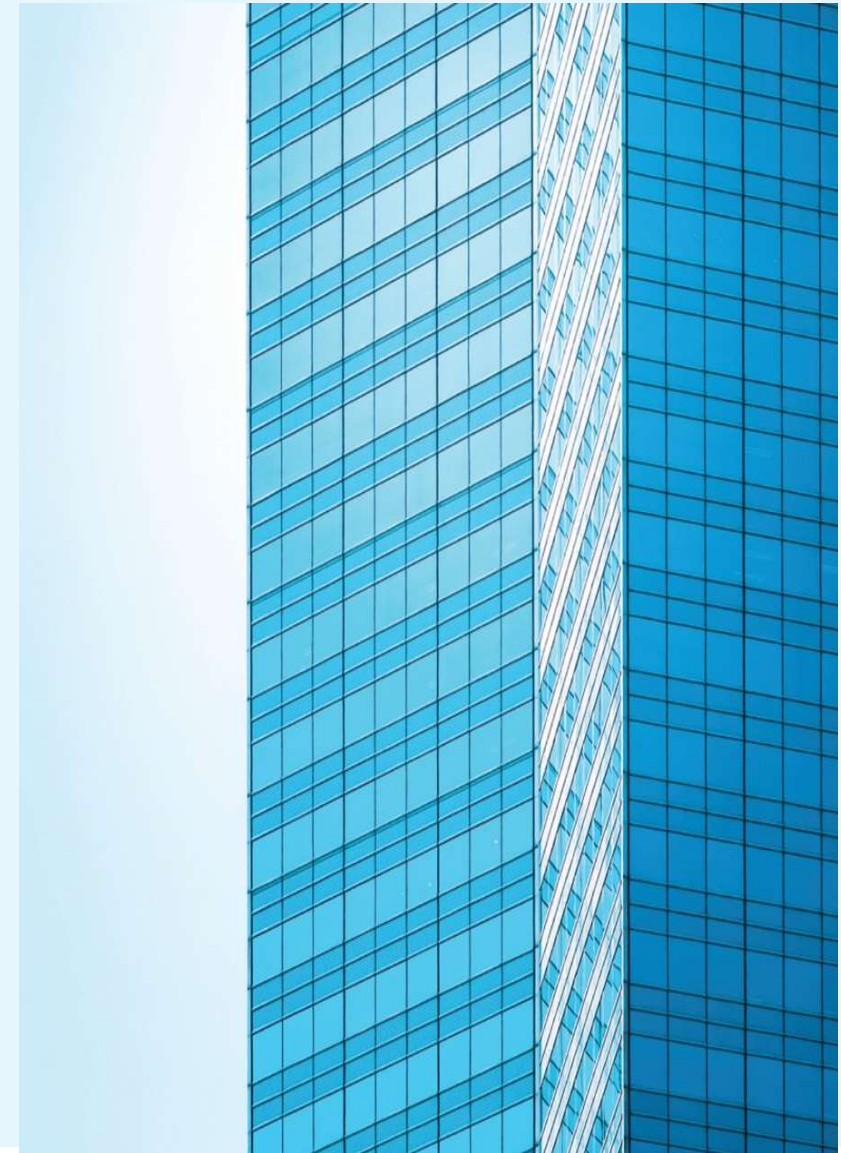
It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at [www.bdo.co.uk](http://www.bdo.co.uk)





# Our Culture of Challenge

## High Performing Teams

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***“The Right people, supported to do the Right Work, in the Right place at the Right time. In short doing the Right thing. Always.”***

A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. While the ICAEW Code of Ethics provides guidance on how a professional accountant fulfils their duty, the focus of our firm, and auditors individually is to discharge our obligation to serve the public interest by consistently performing quality audit engagements.

Our work as auditors is fundamental to the success of the business world, enabling decisions based on transparent financial reporting that is trusted. The purpose of an audit is to help establish and maintain deserved confidence in a Pension Fund, in its directors and in the information which they have responsibility to report, including the financial statements.

Quality is represented in our strategic framework in two important and distinct ways:

- The first is that we are committed to serving the public interest by consistently performing quality engagements - this is particularly important for two reasons: firstly, that it is the right thing to do and secondly, that it's required of by the international standards on quality management.
- The second commitment is to high quality, independence and ethics, which is broader than just our performance on individual audit and non-audit engagements and recognises the importance of high quality in everything we do.

Our Audit Specific Behaviours provide guidance and set consistent expectations for our auditor teams to ensure our day-to-day interactions and decision making come together to create High Performing Teams, that do the right thing. Always.

Read our latest Transparency Report on the BDO website.



# Our system of quality management

## ISQM (UK) 1 - Communication with you

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Over the last two years we have invested, and continue to invest, significantly in our people, training and systems to improve the consistency of the quality of our audits. BDO has a significant number of processes and procedures across the firm which manage audit quality. We set out a summary of the processes and procedures that support audit quality in our 2023 Transparency Report, which was published in October 2023 and is available on our website. Following a rigorous internal assessment we have concluded that, as designed, we have been unable to perform sufficient internal testing at this stage, in accordance with the requirements of ISQM (UK) 1, to conclude whether our system of quality management provides reasonable assurance that the objectives of our system of quality management are being achieved or not.

We are currently in the process of enhancing our risk assessment to ensure completeness of risk identification, and enhancing our corresponding processes and procedures to ensure they are designed, implemented and operating effectively to mitigate the risks. In addition, we are embedding controls in our processes and procedures to enable sufficient internal testing to be undertaken in accordance with the requirements of ISQM (UK) 1 which will allow us to conclude whether our system of quality management is operating effectively. While we continue to make progress in establishing a framework which meets the requirements of ISQM (UK) 1, we continue to rely on the significant processes and procedures that are set out in our 2023 Transparency Report. We expect to publish our conclusion on whether our system of quality management provides reasonable assurance that the objectives of our system of quality management are being achieved in our 2024 Transparency Report.

**For more information:**

Ciaran McLaughlin

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m: 073404 04154

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the Council and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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|   |                     |
|---|---------------------|
| <b>Report title:</b> Update on the 2021/22 external audit of the Essex Pension Fund   |                     |
| <b>Report to:</b> Audit, Governance and Standards Committee   |                     |
| <b>Report author:</b> Nicole Wood, Executive Director, Corporate Services   |                     |
| <b>Date of meeting:</b> 29 July 2024  | <b>For Approval</b> |
| <b>Enquiries to</b> Nicole Wood, Executive Director, Corporate Services <b>email</b> <a href="mailto:nicole.wood@essex.gov.uk">nicole.wood@essex.gov.uk</a> or Samantha Andrews, Investment Manager, Essex Pension Fund <b>email</b> <a href="mailto:Samantha.andrews@essex.gov.uk">Samantha.andrews@essex.gov.uk</a> |                     |
| <b>Divisions affected</b> All Essex   |                     |

**1. Executive Summary**

- 1.1 The purpose of this report is to present an update by the External Auditor (BDO) (as appended), on the status of the external audit of the Essex Pension Fund for the 2021/22 financial year.
- 1.2 BDO currently anticipate being able to complete the 2021/22 external audit by **30 September 2024**.

**2. Recommendations**

- 2.1 That the appended report from BDO LLP on the status of the 2021/22 audit of the Essex Pension Fund be noted.

**3. Background**

- 3.1 A separate report on the agenda presents an update on the status of the audit of Essex County Council for 2021/22. Much of the content in that report applies equally to the External Auditor’s update on the status of the 2021/22 audit of the Essex Pension Fund, so has not been reproduced in this report.

**4. Policy context and Outcomes Framework**

- 4.1 The Essex Pension Fund Accounts summarise the financial performance and position of the Fund at the end of each financial year.

## **5. Financial Implications**

- 5.1 Audit fees will be payable to BDO in respect of the 2021/22 audit. The proposed fees for the 2021/22 audit are detailed the appended report from BDO, and amount to **£49,375**. Public Sector Auditor Appointments Limited (PSAA) sets the audit scale fees, and will determine fee variations, where the auditor undertakes more or less work than is assumed by the scale fees.

## **6. Legal Implications**

- 6.1 The legal implications associated with this report are consistent with those noted in the separate report on the agenda related to the External Auditor's update on the status of the audit of Essex County Council for 2021/22.

## **7. Staffing and other resource implications**

- 7.1 The delayed and protracted nature of the external audit puts pressure on the Essex Pension Fund Team, but every effort continues to be made to respond promptly to audit requests and queries.

## **8. Equality and Diversity implications**

- 8.1 There are no equality and diversity implications associated with this report.

## **9. List of appendices**

- 9.1 **Appendix A** – Report by BDO LLP on the status of the audit of the Essex Pension Fund for the 2021/22 financial year.

## **10. List of Background Papers**

- 10.1 Previous related reports to the Audit, Governance and Standards Committee:
- Draft Statement of Accounts and Annual Governance Statement 2021/22 (**25 July 2022 – AGS/21/22**).
  - 2021/22 Audit Planning Report for Essex Pension Fund (**31 October 2022 – AGS/23/22**).
  - Update on the 2020/21 and 2021/22 external audits of the Council and Essex Pension Fund (**31 October 2022 – AGS/24/22**).
  - Update on the 2020/21 and 2021/22 external audits of the Council and Essex Pension Fund (**30 January 2023 – AGS/01/23**).
  - Update on the 2020/21 and 2021/22 external audits of the Council and Essex Pension Fund (**27 March 2023 – AGS/10/23**).

- Update on the 2021/22 and 2022/23 external audits of the Council and Essex Pension Fund (**25 March 2024 – AGS/14/24**).



# Essex County Council Pension Fund

Audit Completion: year ended 31 March 2022

Report to the Audit, Governance and Standards Committee

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# Welcome

## Introduction

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We have pleasure in presenting our Audit Completion Report to the Audit, Governance and Standards Committee (the Committee). This report is an integral part of our communication strategy with you, a strategy designed to ensure effective two-way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2022, specific audit findings and areas requiring further discussion and/or the attention of the Committee. At the completion stage of the audit, it is essential that we engage with the Committee on the results of audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit, Governance and Standards Committee meeting on 29 July 2024 and to receiving your input. In the meantime, if you would like to discuss any aspects in advance of the meeting, we would be happy to do so.

This report contains matters which should properly be considered by the Board as a whole. We expect that the Audit, Governance and Standards Committee will refer such matters to the Board, together with any recommendations, as it considers appropriate.

We would also like to take this opportunity to thank the management and staff of the Council for their cooperation and assistance during the audit.

Ciaran McLaughlin, Partner

For and on behalf of **BDO LLP**, Appointed Auditor

12 July 2024



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# Overview

## Executive summary

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This summary provides an overview of the audit matters that we believe are important to the audit of the Pension Fund's financial statements for the year ended 31 March 2022.

It is also intended to promote effective communication and discussion and ensure that the audit results appropriately incorporate input from those charged with governance.

### **Responsibilities of the Executive Director, Corporate Services, and Essex County Council ("the Council") as administering authority of the pension fund**

The Section 151 Officer (Executive Director, Corporate Services), is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that the financial statements give a true and fair view.

Our audit of the financial statements does not relieve officers nor those charged with governance of their responsibilities for the preparation of the financial statements.

### **Overview**

Our audit work is substantially complete and subject to the successful resolution of outstanding matters on page 35 we anticipate issuing an unmodified audit opinion on the Pension Fund's financial statements for the year ended 31 March 2022.

The planned audit approach did not significantly change, and no additional significant audit risks were identified.

No restrictions were placed on our work.

### **Audit report**

We anticipate issuing an unmodified audit opinion on the financial statements.

### **Independence**

We confirm that the firm, its partners, and staff involved in the audit remain independent of the Pension Fund in accordance with the FRC's Ethical Standard.



# Audit Scope and Materiality

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### Final Materiality

Final materiality was determined based on 1% of net assets. Specific materiality was set for the fund account balances (excluding changes in market value of investments) and this was based on 7.5% of gross expenses in the Fund Account.

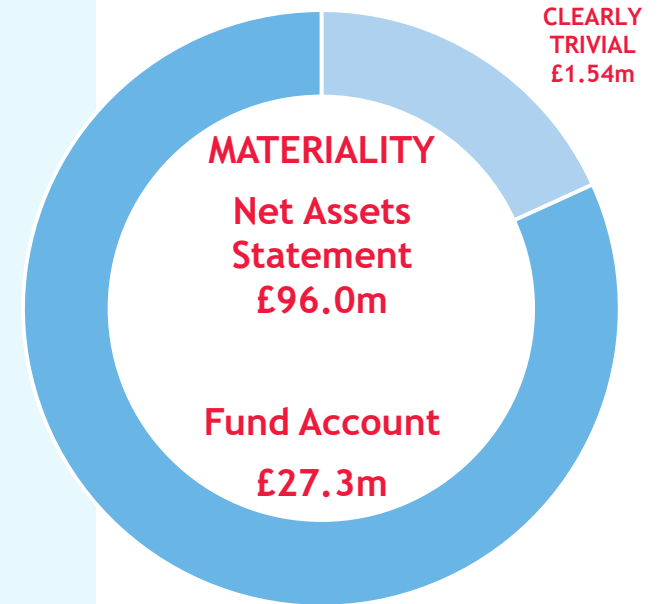
No changes were made to planning materiality reported in our Audit Planning Report dated 14 October 2022.

### Material misstatements

We did not identify any material misstatements.

### Unadjusted audit differences

We identified audit adjustments that, if posted, would reduce the net increase in the assets available for benefits during the year in the Fund account by £7.137 million and decrease the net assets available to fund benefits in the Net Asset Statement by the same amount. Further detail is included on page 18.



# Key matters

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### Financial reporting

- ▶ We have not identified any non-compliance with accounting policies or the applicable accounting framework
- ▶ No significant accounting policy changes have been identified impacting on the period
- ▶ Going concern disclosures are deemed sufficient

### Other matters that require discussion or confirmation

- ▶ Control deficiencies identified in relation to logical access controls over the UPM and Oracle IT applications (see page 20)
- ▶ Confirmation on fraud, contingent liabilities and subsequent events.
- ▶ Draft Letter of representation.

### Independence

- ▶ We confirm that the firm and its partners and staff involved in the audit remain independent of the Council in accordance with the Financial Reporting Council's (FRC's) Ethical Standard.



# Overview of risks

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As identified in our audit planning report we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the directing of the efforts of the engagement team.

There have been no further risks identified since we presented our Audit Planning Report to the Committee in October 2022. We have amended the detail of the Risk 3 (valuation of pension liability) to reflect the fact that the triennial valuation of the fund at 31 March 2022 has now taken place (see page 11 and 12 for further information).

The following pages describe in more detail each risk in the table below, including the audit procedures completed to address the risk. These procedures have been designed to provide assurance against one or more of five 'assertions' identified as being relevant to that risk. These assertions are as follows:

C - Completeness

E - Existence

A - Accuracy

V - Valuation

P - Presentation

| # | Significant audit risk  | Risk rating | Significant management judgement | Use of experts required | Unadjusted error reported | Adjusted error reported | Significant control findings reported | Specific letter of representation point |
|---|---|-------------|----------------------------------|-------------------------|---------------------------|-------------------------|---------------------------------------|---|
| 1 | Management override   | Significant | Yes                              | No                      | No                        | No                      | No                                    | No                                      |
| 2 | Valuation of investments (Unquoted and direct property investments) | Significant | Yes                              | Yes                     | Yes                       | No                      | No                                    | Yes                                     |
| 3 | Valuation of Pension liability                                      | Significant | Yes                              | Yes                     | No                        | No                      | No                                    | Yes                                     |
| 4 | Valuation of investments (Pooled investments)                       | Normal      | No                               | No                      | No                        | No                      | No                                    | No                                      |
| 5 | Contributions receivable  | Normal      | No                               | No                      | No                        | No                      | No                                    | No                                      |
| 6 | Management expenses   | Normal      | No                               | No                      | No                        | No                      | No                                    | No                                      |

# Risk 1

## Management override of controls

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|                            | C | E | A | V | P | 2022 | 2021 |
|----------------------------|---|---|---|---|---|------|------|
| <b>Management override</b> | x | x | x | x | x | N/A  | N/A  |

### Risk Detail

- ▶ Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. We are required to consider this as a significant risk of material misstatement due to fraud.

### Audit Approach

We carried out the following planned audit procedures:

- ▶ Reviewed and verified large and unusual journal entries made in the year; agreed the journals to supporting documentation; and determined key risk characteristics to filter the population of journals.
- ▶ Evaluated of risks arising from automated journals
- ▶ Evaluated findings from an evaluation of the design and implementation of IT general controls
- ▶ Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- ▶ Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.

### Results

Our work has not identified any evidence of systematic bias or management override in the processing of journal entries and other adjustments

Material accounting estimates for the Pension Fund included valuation of unquoted and direct property investments and the pension liability. Our audit work on these accounting estimates are set out in the following pages. The audit work performed provided reasonable assurance that the accounting estimates are reasonable and free from management bias.

Our review of the unadjusted audit differences (see page 18) has not identified any evidence of management bias or deliberate misstatement.

We have not identified any unusual transactions or transactions that are outside the normal course of business.

### Discussion and conclusion

We have no matters to report.

|   |
|---|
| ● Significant risk                              |
| ● Fraud risk                                    |
| ● Related controls identified to mitigate risk  |
| ● Significant Management estimates & judgements |
| Controls testing approach                       |
| Data analytics testing approach                 |
| ● Substantive testing approach                  |





# Risk 2

## Valuation of investments (unquoted and direct property investments)

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|                               | C | E | A | V | P | 2022             | 2021               |
|-------------------------------|---|---|---|---|---|------------------|--------------------|
| <b>Change in Market Value</b> |   |   | x |   |   | £(828.6) million | £(2,008.3) million |
| <b>Investments</b>            |   |   |   | x |   | £9,601.8 million | £8,674.5 million   |

### Risk Detail

The investment portfolio includes unquoted private equity, debt, infrastructure and timberlands, which are valued by the fund managers. The pension fund also makes direct investments in freehold and leasehold properties based on valuations received from the fund managers. The valuation of these assets may be subject to a significant level of assumption and estimation, and valuations may not be based on observable market data. Due to the significance of these valuations, even a small change in assumptions and estimates could have a material impact on the financial statements.

In some cases, the valuations are provided at dates not coterminous with the Pension Fund's year-end and need to be updated to reflect cash transactions (additional contributions or distributions received) since the latest available valuations. Due to current market volatility, the valuation received can quickly become outdated.

As a result, we consider there to be a significant risk that investments are not appropriately valued in the financial statements.

### Audit Approach

Our audit procedures included the following:

- ▶ Obtaining direct confirmation of investment valuations from the fund managers and requesting copies of the audited financial statements (and member allocations) from the fund;
- ▶ Reviewing the valuation completed by the fund manager and any significant assumptions made in the valuation;
- ▶ For property valuations, we agreed input data used by the valuer, such as agreeing rental information to the underlying rental agreements, and will review the rental yields against the comparable data and indices for reasonableness;
- ▶ Where the financial statement date supporting the valuation is not conterminous with the pension fund's year-end, we confirmed that appropriate adjustments have been made to the valuations in respect of additional contributions and distributions with the funds and
- ▶ Ensuring investments have been correctly valued in accordance with the relevant accounting policies.

|  |
|--|
| <span style="color: red;">●</span> Significant risk                              |
| Fraud risk   |
| Related controls identified to mitigate risk                                     |
| <span style="color: red;">●</span> Significant Management estimates & judgements |
| <span style="color: red;">●</span> Controls testing approach                     |
| Data analytics testing approach  |
| <span style="color: red;">●</span> Substantive testing approach                  |





# Risk 2 (con't)

## Valuation of investments (unquoted and direct property investments)

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|                        | C | E | A | V | P | 2022             | 2021               |
|------------------------|---|---|---|---|---|------------------|--------------------|
| Change in Market Value |   |   | x |   |   | £(828.6) million | £(2,008.3) million |
| Investments            |   |   |   | x |   | £9,601.8 million | £8,674.5 million   |

### Results and conclusion

Our review of the direct confirmations obtained from fund managers identified that the valuation of private equity was overstated by a non-material amount of £7.137 million. This is because some investment reports used during the preparation of the financial statements were not coterminous with the Pension Fund's year-end. Management were therefore required to estimate the value of the affected investments. More recent valuations for these investments were available during our audit and, when compared to the amount recognised in the Net Assets Statement, identified the above variance against the estimates used. The variance identified is included within the uncorrected misstatements schedule (see page 18) which shows the impact of change in market value in the Fund Account and investment value in the Net Assets Statement.

For investments in private equity, illiquid debt, infrastructure and timberlands, we obtained audited financial statements of the underlying investee funds, and valuations were recalculated by adjusting the additional contributions and distributions where relevant. Net asset statements at 31 March 2022 were available for the investment in illiquid debt, infrastructure and timberland. Our recalculations of valuations for these investment categories did not identify any variances outside of our threshold.

In respect of private equity, we reviewed a sample of audited financial statements of the

underlying investee funds. Our recalculations of valuations for these investment categories did not identify any variances outside of our threshold.

The direct investment properties held by the pension fund have been valued by an external professional valuer. We are satisfied with the skills and expertise of the valuer and concluded that we can rely on them in their capacity as management's expert. Our review of the input used by the valuer (i.e. rental information) confirmed that they are accurate and reasonable.

The market value of directly held properties has increased by approximately 15.8% during the year to £474.7 million. The MSCI sector capital value index has changed for the following sectors:

- Industrial - 35.8% increase
- Officer - 3.2% increase
- Warehouses and shops - 8.9% increase

Given the above movements and the weighting of property types held by the pension fund, the increase in investment property valuations of 15.8% is consistent with our expectations. We are therefore satisfied that the valuation of directly held properties is reasonable.

Other than unadjusted misstatement in relation to private equity referred to above, we have no matters to report.

|   |
|---|
| ● Significant risk                              |
| Fraud risk                                      |
| Related controls identified to mitigate risk    |
| ● Significant Management estimates & judgements |
| ● Controls testing approach                     |
| Data analytics testing approach                 |
| ● Substantive testing approach                  |







# Risk 3

## Valuation of pension liability

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|                    | C | E | A | V | P | 2022 | 2021 |
|--------------------|---|---|---|---|---|------|------|
| Pension Disclosure | x | x | x | x | x | N/A  | N/A  |

### Risk Detail

An actuarial estimate of the pension fund liability to pay future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the Pension Fund and uses local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.

The most recent actuarial valuation of the pension fund liability at the point at which the 2021/22 financial statements were prepared was carried out during the 2019/20 year to calculate the liability at 31 March 2019.

The valuation involved the provision of membership and cash flow data from the pension fund to the actuary, data cleansing by the actuary, and resetting the financial and actuarial assumptions related to the valuation. The estimate of the pension fund liability at 31 March 2022 disclosed in the financial statements presented for audit was based on a roll-forward of data from the 31 March 2019 valuation, updated where necessary.

This estimate has since been superseded by the actuarial valuation of the fund at 31 March 2022. This valuation took place during 2022/23 and the results were published by the actuary in March 2023.

There is a risk that the valuation disclosed in the notes to the Pension Fund accounts is not based on appropriate membership data (where there are any significant changes) or uses inappropriate

assumptions to value the liability.

### Audit Approach

Our audit procedures included the following:

- ▶ Reviewing the controls in place to ensure that the data provided from the fund to the actuary is complete and accurate;
- ▶ Testing a sample of transfers and cash flow data sent to the actuary for existence and accuracy;
- ▶ Reviewing the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. We will use the PwC consulting actuary report for the review of the methodology of the actuary and the reasonableness of the assumptions;
- ▶ Agreeing a sample of membership data provided to the actuary to supporting evidence
- ▶ Checking whether any significant changes in membership data have been communicated to the actuary and
- ▶ Agreeing the disclosure to the information provided by the actuary.

|   |
|---|
| ● Significant risk                              |
| Fraud risk                                      |
| ● Related controls identified to mitigate risk  |
| ● Significant Management estimates & judgements |
| Controls testing approach                       |
| Data analytics testing approach                 |
| ● Substantive testing approach                  |



# Risk 3

## Valuation of pension liability

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|                    | C | E | A | V | P | 2022 | 2021 |
|--------------------|---|---|---|---|---|------|------|
| Pension Disclosure | x | x | x | x | x | N/A  | N/A  |

### Results and progress

The Pension Fund has established controls and procedures to ensure completeness and accuracy of membership data provided to the actuary. Our review of the controls to ensure data provided to the actuary is complete and accurate did not identify any issues.

As described in the risk detail on the previous page, the disclosures relating to the pension fund liability included in Note 3.3 of the financial statements presented for audit were based on the roll forward of data from the 2019 triennial valuation.

This has now been superseded by the valuation of the fund as at 31 March 2022. This provides a more accurate estimate of the liability at the financial statements reporting date. Accounting and auditing standards require us to consider information which may affect the value of transactions and balances recognised in the financial statements and any associated disclosures, up to the date at which our audit opinion is signed. As the impact of the updated valuation is likely to be material, we have updated our audit strategy to include procedures that provide assurance over the outcome of the triennial valuation.

At the time of writing, our procedures over the membership and cash flow data provided to the actuary to support the latest triennial valuation remain in progress.

We will also review the reasonableness of the updated assumptions used in the triennial valuation to calculate the present value of future pension obligations.

We will provide the Committee with an update at the meeting at which this report is presented.

|  |
|--|
| <span style="color: red;">●</span> Significant risk                              |
| <span style="color: red;">●</span> Fraud risk                                    |
| Related controls identified to mitigate risk                                     |
| <span style="color: red;">●</span> Significant Management estimates & judgements |
| Controls testing approach  |
| Data analytics testing approach  |
| <span style="color: red;">●</span> Substantive testing approach                  |



# Risk 4

## Valuation of investments (pooled investments)

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|                               | C | E | A | V | P | 2022             | 2021               |
|-------------------------------|---|---|---|---|---|------------------|--------------------|
| <b>Change in Market Value</b> |   |   | x |   |   | £(356.9) million | £(1,699.5) million |
| <b>Investments</b>            |   |   |   | x |   | £6,573.9 million | £5,916.8 million   |

### Risk Detail

Individual fund managers provide the fair value of funds (principally pooled investments), which is reviewed by the Custodian (Northern Trust). These valuations are reported monthly/quarterly, although there may be amendments to the ‘flash’ valuations initially provided and subsequent final valuations that may be received after the draft accounts have been prepared.

There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements.

### Audit Approach

Our audit procedures included the following:

- ▶ Obtaining direct confirmation of investment valuations from the fund managers, including any subsequent final valuations to ‘flash’ valuations in the draft accounts;
- ▶ Ensuring that investments have been correctly valued in accordance with the relevant accounting policies and
- ▶ Obtaining independent assurance reports on the controls operated by the fund managers and custodians regarding valuations and the existence of underlying investments in the funds.

### Results and conclusion

The investment valuations included in the financial statements for pooled investments were agreed to the valuations provided by the fund managers with trivial variances.

We agreed that the investments have been correctly valued using the closing bid market price in line with the accounting policy.

We obtained independent assurance reports for each fund manager and the custodian and these did not reveal any issues with the effectiveness of controls operated by fund managers and custodian for valuations and existence of underlying investments in the funds. The assurance report for one of the fund managers was qualified in respect of controls. Whilst we have not identified any control issues affecting the valuation and existence of investments managed by the fund manager in question, we agreed investments managed by the fund manager to independent market prices and confirmed that the valuations are accurate.

Where the assurance reports obtained were not coterminous with pension fund year end, we obtained bridging letters confirming the satisfactory operation of controls within the fund managers and the custodian to the 31 March 2022.

We have no matters to report regarding the valuation of pooled investments.

|   |
|---|
| Significant risk                              |
| ● Normal risk                                 |
| Fraud risk                                    |
| Related controls identified to mitigate risk  |
| Significant Management estimates & judgements |
| ● Controls testing approach                   |
| ● Substantive testing approach                |



# Risk 5

## Contributions receivable

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|                      | C | E | A | V | P | 2022             | 2021             |
|----------------------|---|---|---|---|---|------------------|------------------|
| <b>Contributions</b> | x | x | x |   |   | £(292.3) million | £(313.7) million |

### Risk Detail

Employers are required to deduct amounts from employee pensionable pay based on tiered pay rates and to make employer normal and deficit contributions in accordance with rates agreed with the actuary.

Additional contributions are also required against pension strain for unreduced pensions for early retirements and augmentation of pensions.

There is a risk that employers may not be calculating contributions correctly and paying over the full amount due to the pension fund.

### Audit Approach

Our audit procedures included the following:

- ▶ Testing a sample of normal contributions due (and testing where a combined rate including deficit applies) for active members, including checking employer payroll records;
- ▶ Reviewing contributions receivable and ensuring that income is recognised in the correct accounting period where the employer is making payments in the following month and
- ▶ Carrying out audit procedures to review contributions income in accordance with the Actuary's Rates and Adjustments Certificate, including specified increased rates to cover the minimum contributions to be paid as set out in the Certificate.

### Results and conclusion

We carried out analytical procedures to establish the expected normal and deficit contributions receivable during the year. Our analytical procedures used the prior year amounts received and these were adjusted for the known and expected changes during the year such as the change in membership, contribution rates and the deficit contributions set out in the actuary's report. This produced expected normal and deficit contributions which were within our tolerable threshold.

We substantively tested normal contributions for active members by agreeing a sample of contributions to payroll records and to the employer returns received. For a sample of active members, we recalculated the employee and employer contributions using the relevant rates and confirmed the accuracy of calculations. We identified no issues from the testing.

For deficit contributions, we agreed a sample to the actuary's report and identified no issues. We also reviewed monthly contributions received from employers and confirmed that these have been recognised in the correct financial year.

We have no matters to report regarding

Contributions receivable.

|   |
|---|
| Significant risk                              |
| ● Normal risk                                 |
| Fraud risk                                    |
| Related controls identified to mitigate risk  |
| Significant Management estimates & judgements |
| Controls testing approach                     |
| ● Substantive testing approach                |



# Risk 6

## Management expenses

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|                     | C | E | A | V | P | 2022   | 2021   |
|---------------------|---|---|---|---|---|--------|--------|
| Management expenses | x | x | x |   |   | £81.4m | £58.2m |

### Risk Detail

The Pension Fund are required to pay investment management and performance related fees to the Fund Managers. The investment management fee is typically derived from the value of the portfolio invested in each fund manager and the type of investment undertake. The performance related fees are based on the return generated yearly and is the more volatile element of management expenses.

There has been a significant increase in management fees year on year (44%) while the value of the investments under management has only increased by 11%. Investments under management increased by more than 20% in 2020/21. This indicates a risk that management expenses may not have been accounted for in the correct financial year.

### Audit Approach

Our audit procedures included the following:

- ▶ Testing a sample of management expenses agreeing them back to supporting documentation from the custodian or Fund Managers.
- ▶ Reviewing the significant movements in management expenses to confirm they are reasonable and in line with supporting documentation.

### Results and conclusion

We obtained and corroborated explanations for the increase in management fees.

We agreed a sample of management expenses to invoices and investment manager/custodian reports to confirm the accuracy and existence of the associated expenditure. We also confirmed that amounts classified as management expenses met the definition of a management fee. No issues were identified.

|   |
|---|
| Significant risk                              |
| ● Normal risk                                 |
| Fraud risk                                    |
| Related controls identified to mitigate risk  |
| Significant Management estimates & judgements |
| Controls testing approach                     |
| ● Substantive testing approach                |



# IT Audit Approach

## BDO Advantage Guided Data Analytics

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### Overview

BDO Advantage is our in house developed data analytics software.

Our Advantage Data Analytics specialists transform your transactional, bank and payroll data into our BDO Advantage solutions to enable performance of data analytics tests (DATs) and Risk Assessment Data Analytics (RADAs) which have been scoped based on the risk areas identified in our planning report

The BDO Advantage Data Analytics Solution we have used are:

| Analysers                          | Used For           | Narrative  |
|------------------------------------|--------------------|--|
| Advantage Financial Analyser (AFA) | Audit of Journals] | The AFA enables identification of fraud and other areas where risks of material misstatement is present as well as deeper analysis and sample extraction of data when performing audits of journals. |

# Matters requiring additional consideration

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## Fraud

Whilst the Council's officers have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Planning Report on 31 October 2022.

## Laws and regulations

The most important considerations for your organisation are the:

- Public Service Pension Act 2013
- Local Government Pension Scheme Regulations 2013 (as amended)
- Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014
- Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016
- International accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21;
- Local Audit and Accountability Act 2014;
- Accounts and Audit Regulations 2015;

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

## Internal audit

We reviewed the audit work of the Council's internal audit function to assist our risk scoping at the planning stage.

## Related parties

Whilst the Pension Fund is responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present a greater risk for management override, concealment, or fraud.

We did not identify any significant matters in connection with related parties

## Service auditor reports

We reviewed service auditor reports in respect fund managers which manage investments on the Pension Fund's behalf. Where those service auditor reports specified complementary user entity controls (controls which the service organisation state should be in place at the Pension Fund), we confirmed that this was the case.

We concluded that we could place reliance on the service auditor reports.

# Unadjusted audit differences: Detail

## Details for the current year

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We are required to bring to your attention unadjusted differences and we request that you correct them.

Subject to completion of the outstanding procedures on page 35, we have identified two unadjusted misstatements and these are shown in the table below.

| Unadjusted audit differences  | Fund Account     |               |          | Net Assets Statement |                |
|---|------------------|---------------|----------|----------------------|----------------|
|   | £'000            | £'000         | £'000    | £'000                | £'000          |
| <b>Net increase in the assets available for benefits during the year</b>                          | <b>(906,445)</b> |               |          |                      |                |
| Adjustment 1: Impact of brought forward unadjusted misstatements*                                 |                  |               |          |                      |                |
| DR Investments (opening balance at 1 April 2021)  |                  |               |          | 9,529                |                |
| DR Changes in market value of investments   | 9,529            | 9,529         |          |                      |                |
| Adjustment 2: To correct timing differences in the valuation of private equity investment         |                  |               |          |                      |                |
| DR Change in Market Value of investments  | 7,137            | 7,137         |          |                      |                |
| CR Private equity investments   |                  |               |          |                      | (7,137)        |
| <b>Total unadjusted audit differences</b>   | <b>16,666</b>    | <b>16,666</b> | <b>-</b> | <b>9,529</b>         | <b>(7,137)</b> |
| <b>Net increase in the assets available for benefits during the year if above issues adjusted</b> | <b>(889,779)</b> |               |          |                      |                |

\* Further details relating to the impact of the brought forward adjustment of £9.529 million are included in our 2020/21 Audit Completion Report. This adjustment only affects the opening balance of investments at 1 April 2021 in the Net Asset Statement and has no impact on the value of investments at 31 March 2022. However, this adjustment does affect the changes in market values of investments recognised in the year because the understatement of the opening investment balances means that the increase in market value recognised in the 2021/22 Fund Account is overstated by the same amount. Because of the nature of this adjustment, the impact in the current year is shown as a debit to both the investments opening balance in the net asset statement and to changes in market value of investments in the fund account. As the Pension Fund does not maintain reserves, the corresponding credits are effectively made to the prior year closing position but have been omitted for clarity.



# Adjusted disclosure omissions and improvements

## Disclosure omissions and improvements

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**We are required to bring to your attention other financial reporting matters that the Audit, Governance and Standards Committee is required to consider.**

The following are the most significant adjusted disclosure matters that were noted:

- ▶ Our reconciliation of membership numbers disclosed in Note 1.2 - *Membership* identified that active members were overstated by 990 based on the membership data available at the time the audit procedures were conducted. This has now been superseded by the latest membership data available from the triennial valuation of the fund at 31 March 2022 and the note will be updated to reflect this information instead.
- ▶ Note 12.4.1 - *Rent receivable from operating leases* incorrectly included an adjustment to reduce the contractual rent due to reflect historic collection rates.
- ▶ Our review of Note 17.1 - *Fair Value Hierarchy* identified that investments with a value of £9.672m and meeting the criteria of level 2 in the fair value hierarchy had been misclassified as level 1 in the disclosure.

Our procedures identified that the capital commitment disclosed in Note 14.4 - *Contingent liabilities and contractual commitments* was overstated by £12.6m based on information received directly by the audit team from the relevant fund manager. Further discussions about this matter have identified that there is a difference between this information and that provided to the pension fund by the same fund manager. This is being investigated further at the time of writing.

Further to the above, management have agreed to update Note 3 to reflect the outcome of the triennial valuation of the fund at 31 March 2022. This information was published in May 2023 and provides a more accurate value for the defined benefit obligation than was available to the Pension Fund when the 2021/22 financial statements were prepared. While the Pension Fund does not recognise the obligation (which is a liability of employers), it is required to disclose the value of the liability in a note to the financial statements





# Control environment: IT general controls

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| Area                              | Observation & implication  | Recommendation   | Management response   |
|-----------------------------------|--|--|---|
| UPM -Password parameters          | <p>Our inspection of password settings identified that there were parameters not configured as per good practice. We also confirmed that a password policy was not established.</p> <p>Weak password and security settings increase the risk of unauthorized access by enabling potential intruders to perform activities which could impact and compromise confidentiality, integrity and availability of the application and data.</p> | <p>a) Establish and formalize an Information Security Policy with the password and settings policy to include recommended settings.</p> <p>b) Configure the password and login parameters in Active Directory and other applications to comply with the updated password and security settings policy.</p>           | <p>Security Policy is currently in draft and is due to be signed off for April 23.</p> <p>Password has a maximum expiry of 28 days.</p> <p>New passwords expire on same day, therefore minimum password expiry is 0 days.</p> <p>UPM session expiry is 30min.</p> <p><u>Update - July 2024</u></p> <p>Cyber Hygiene Guidance in place for staff and Board/Committee Members which refers to UPM security. UPM Password Security Policy for EPF staff/UPM users is still in development to ensure it captures all required elements. This is due to be signed off by the Management Team in Summer 2024.</p> |
| UPM - Periodic user access review | <p>We were informed that a User Access Review pertaining to the appropriateness of user access rights was conducted during the audit. However, documentations and evidence of such is not available and not being maintained.</p> <p>Absence of proper monitoring of user access rights may result in excessive/inappropriate access rights granted to users which could be used to process unauthorized or fictitious transactions.</p> | <p>a) Ensure that all user access rights are consistent with the current responsibilities assigned to the users' job role.</p> <p>b) Based on results of the review, investigate and action any unusual activity as deemed necessary.</p> <p>c) Document the review by signing off and dating the logs reviewed.</p> | <p>A review is completed quarterly by Systems Manager and an independent reviewer. This ensures all users have the relevant access rights within UPM and all changes are necessary and relevant.</p> <p><u>Update - July 2024</u></p> <p>The above process remains in place.</p>  |



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| Area   | Observation & implication  | Recommendation  | Management response  |
|--|--|---|--|
| UPM - Untimely deactivation of user accounts | <p>We tested one user account and found that it was locked/disabled in UPM fifteen days after the user employment was terminated.</p> <p>We confirmed that the user did not login beyond the termination date.</p> <p>Accounts of leavers whose access is not revoked in a timely manner may be used by other employees to log in and process unauthorized transactions.</p>   | <p>a) Coordinate with the HR Department/Department Head to ensure timely revocation of leavers' access.</p> <p>b) Periodically monitor deactivated user accounts to ensure that the accounts were not reactivated and used for unauthorized transactions.</p>   | <p>A training session was given to all Team Managers within the January 2022 management team meeting to remind them of the importance of timely UPM log forms.</p> <p>This is routinely scheduled on an annual basis and will given again within the January 2023 management team meeting.</p> <p>Review of deactivated user accounts are completed quarterly.</p> <p>From April 2022, the compliance team monitor leavers within the fund and ensures leavers are completed in a timely manner.</p> <p><u>Update - July 2024</u></p> <p>A revision to the process has been made where an email to confirm the review has been undertaken will be issued to the Systems Development Manager from the Head of Fund Compliance and Governance.</p> |
| UPM - Segregation of duties                  | <p>We identified that the software supplier was given conflicting access to UPM for the purposes of:</p> <ol style="list-style-type: none"> <li>1. Developing and building changes</li> <li>2. Migrating changes to production</li> <li>3. Custody to monitor all program changes</li> </ol> <p>We noted one change in UPM that was migrated and developed by the same user.</p> <p>Unauthorized changes may be deployed to the production environment and may not be detected timely.</p> | <p>Segregate the duties of IT personnel so that the person who develops the change is not the same person who deploys it to the production environment. Where this is not possible, access to the production environment should be only granted temporarily on an as needed and approved basis. Further consider implementing monitoring controls to detect potentially inappropriate changes.</p> <p>Formalise the documentation for each change implemented within the system from its request, approval, testing and deployment to production.</p> | <p>There is a segregation of duties within Civica.</p> <p>Civica's Database Analyst completes the auto installations into our Test and Live environments for us. The Database Analyst is not a developer within Civica and does not have anything to do with building upgrades.</p> <p>The Database Analyst completed the installation into Test. We completed testing and once approved he installed the upgrade into Live.</p> <p>The Database Analyst does not manually amend anything within the system.</p> <p>We have a contract with Civica that details deliveries.</p> <p><u>Update - July 2024</u></p> <p>The above process remains in place.</p>  |



# Control environment: IT general controls

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| Area   | Observation & implication   | Recommendation  | Management response   |
|--|---|---|---|
| UPM -Controls over Logical Access Management | <p>There is no formal documented policy on user access administration including creation of new users, modification of access rights, and revocation of user accounts when an employee changes job function or leaves the organization, periodic review of users' access rights, use of generic/shared user IDs, and on password management.</p> <p>Absence of a formal, consolidated and comprehensive policies may hinder the consistent implementation of procedures and the proper establishment of security safeguards that protect sensitive data against loss and unauthorized access.</p> | <p>Establish a formal information security policy. As guidance, the following should be considered as minimum information/areas to be included in the ISPP:</p> <ul style="list-style-type: none"> <li>Physical access control</li> <li>New/modified users access administration and terminated users</li> <li>Regular user access review and monitoring of super user accounts</li> <li>Password parameters and complexity</li> <li>Authorization and approval of program changes and user acceptance testing and quality assurance testing</li> <li>Backup procedures and restoration testing</li> <li>Incident management policies and procedures</li> </ul> | <p>Policy for user access is currently in draft and is due to be signed off for April 23.</p> <p>Other recommendations will be reviewed after user access policy is signed off.</p> <p><u>Update - July 2024</u></p> <p>Cyber Hygiene Guidance in place for staff and Board/Committee Members which refers to UPM security. UPM Password Security Policy for EPF staff/UPM users is still in development to ensure it captures all required elements. This is due to be signed off by the Management Team in Summer 2024.</p> |

# Control environment: ITGCs

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| Area                               | Observation & implication  | Recommendation   | Management response   |
|------------------------------------|--|--|---|
| UPM - Generic users                | <p>Our inspection of the active user list within UPM identified generic user accounts:</p> <p>1) 20 generic user accounts which were assigned to several user IDs. 14 of these were granted inappropriate privileged user access rights.</p> <p>2) Monitoring of generic user accounts does not exist across within UPM, hence user activities are not tracked.</p> <p>The use of generic/shared user IDs reduces user accountability and makes it difficult to produce an audit trail that can track activities on the system to a specific user.</p> | <p>a) Review generic/dormant user accounts and confirm with the respective department heads whether there is a continued need to maintain these accounts. Accordingly, perform user accounts cleanup and delete accounts that are no longer needed.</p> <p>b) Assign generic user accounts to specific users and disable or lock system IDs if not needed.</p> | <p>All accounts are actively reviewed within the quarterly review. See UPM Access Check 2021-22.xlsx which contains details of each review completed in 2021-22 along with sign-off and date review completed.</p> <p>Access is revoked when individuals leave and all access is removed once correct leaver forms are supplied to Support Team.</p> <p>Each BULK account is assigned to an individual. Access is supplied and reviewed according to business need.</p> <p><u>Update - July 2024</u></p> <p>The above process remains in place.</p> |
| UPM - Third party assurance review | <p>The Pension Fund is party to an outsourced IT services agreement. Our audit of program changes was limited to inspection and assessment of contracts, Service Level Agreements (SLAs) and related documentation provided by the service provider. While these documents were very comprehensive, we noted that there is limited assurance being communicated by the third party to Essex County Council regarding the adequacy and effectiveness of the third party's control environment.</p>  | <p>Liaise with the IT services provider to obtain a third-party service organisation controls (SOC) report.</p>  | <p>Civica do not use SOC as part of their compliance standards and therefore are unable to provide the SOC report that was requested. The SOC standard is based on security, availability, processing, integrity, confidentiality and privacy. All of which are covered by their ISO27001 and Cyber Essentials certifications.</p> <p><u>Update - July 2024</u></p> <p>Civica have provided a Civica pensions security management plan Norfolk Framework document instead of a SOC</p>  |

# Audit report overview

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## Opinion on financial statements

We anticipate issuing an unmodified opinion on the financial statements.

There are no matters disclosed in the financial statements that we wish to draw attention to by way of 'emphasis of matter'.

## Going concern

Our report will:

- ▶ state our conclusion that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate
- ▶ state that we have not identified a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue

## Irregularities, including fraud

Our report will contain an explanation of the extent to which the audit was considered capable of detecting irregularities, including fraud. Irregularities in this context means non-compliance with laws or regulations.

## Other information

We have not identified any material misstatements that would need to be referred to in our report.



# Additional matters we are required to report

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|   | Issue   | Comments  |
|---|---|---|
| 1 | Significant difficulties encountered during the audit.  | No exceptions to note.                                |
| 2 | Written representations which we seek.                  | We enclose a copy of our draft representation letter. |
| 3 | Any fraud or suspected fraud issues.                    | No exceptions to note.                                |
| 4 | Any suspected non-compliance with laws or regulations.  | No exceptions to note.                                |
| 5 | Significant matters in connection with related parties. | No exceptions to note.                                |



# Letter of Representation

Draft letter for review

Essex Pension Fund / address  
To be printed on letter headed paper

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BDO LLP  
 First Floor, Franciscan House  
 51 Princes Street  
 Ipswich IP1 1UR

Dear Sirs

## Financial statements of Essex Pension Fund for the year ended 31 March 2022

We confirm that the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2022 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Executive Director, Corporate Services has fulfilled her responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Pension Fund as of 31 March 2022 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Pension Fund's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

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We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the Pension Fund have been made available to you for the purpose of your audit and all the transactions undertaken by the Pension Fund have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of management and other meetings have been made available to you.

## Going concern

We have made an assessment of the Pension Fund's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Pension Fund is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis. Furthermore, we confirm that the disclosures included in note 2 to the financial statements are sufficient.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Pension Fund's ability to continue as a going concern.

## Laws and regulations

In relation to those laws and regulations which provide the legal framework within which the Pension Fund's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

## Post balance sheet events

Other than those disclosed in the financial statements, there have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.





# Letter of Representation

## Draft letter for review

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### Fraud and error

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

### Misstatements

We attach a schedule showing uncorrected misstatements that you have identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

### Related party transactions

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

Other than as disclosed in Note 15 to the financial statements, there were no loans, transactions or arrangements between the Pension Fund and Council members or their connected persons at any time in the year which were required to be disclosed.

### Carrying value and classification of assets and liabilities

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the financial statements.

### Accounting estimates

The value at which investment assets are recorded in the net assets statement is the fair value. We are responsible for the reasonableness of any significant assumptions underlying the valuations, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the scheme. Any significant changes in those values since the year end date have been disclosed to you.

None of the assets of the scheme has been assigned, pledged or mortgaged.

The following key assumptions have been used to calculate the actuarial present value of future pension benefits disclosed in the financial statements:

[TO BE UPDATED FOLLOWING COMPLETION OF OUR WORK ON TRIENNIAL VALUATION:

- RPI increase xx%
- CPI increase xx%
- Salary increase xx%
- Pension increase xx%
- Discount rate xx%
- Mortality:
  - Current pensioners - male xx years and female xx years
  - Future pensioners - male xx years and female xx years
- Commutation: pre-April 2008 - xx% / post-April 2008 - xx%

We consider these assumptions to be appropriate for the purposes of estimating the pension liability in accordance with the Code and IAS 19 and IAS 26.]



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## Litigation and claims

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards.

## Confirmation

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and member has taken all the steps that they ought to have taken as a director or member of the Council in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Nicole Wood  
Executive Director, Corporate Services  
Date:

Cllr Anthony Michael Hedley  
Chair of the Audit, Governance and Standards Committee  
Date:

# Independence and fees

## Executive summary

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### Independence

We confirm that the firm, and the engagement team conducting the audit comply with relevant ethical requirements including the Financial Reporting Council's (FRC's) Ethical Standard as appropriate and are independent of the Pension Fund.

There were no non-audit services provided by us to the Pension Fund during the period and up to the date of this Audit Completion Report.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence

### Fee summary

Our proposed fees are shown in the table to the right.

There were no non-audit services provided by us to the Trust during the year and up to the date of this report.

|   | Fees (£)                    |               |
|---|-----------------------------|---------------|
|   | 2021/22<br>(proposed)       | 2020/21       |
| Statutory audit: Code Scale fee                                     | <sup>(1)</sup> 24,075       | 24,075        |
| Additional recurring audit fee: audit approach                      | <sup>(2)</sup> 3,925        | 3,925         |
| Remote working  | -                           | 2,800         |
| Additional recurring audit fee: IT environment and general controls | <sup>(3)</sup> 6,500        | -             |
| Additional audit fee: Triennial valuation                           | <sup>(4)</sup> 7,000        |               |
| Additional fee for IAS 19 assurance requests                        | 7,875                       | 6,500         |
| <b>Total proposed audit fees</b>                                    | <b><sup>(5)</sup>49,375</b> | <b>37,300</b> |

### Fee variances

(1) The Code fee quoted is the PSAA scale fee of £24,075

(2) The audit fee relating to the audit approach reflects a recurring increase in the volume and detail of work in relation to financial statement areas involving significant judgements and assumptions.

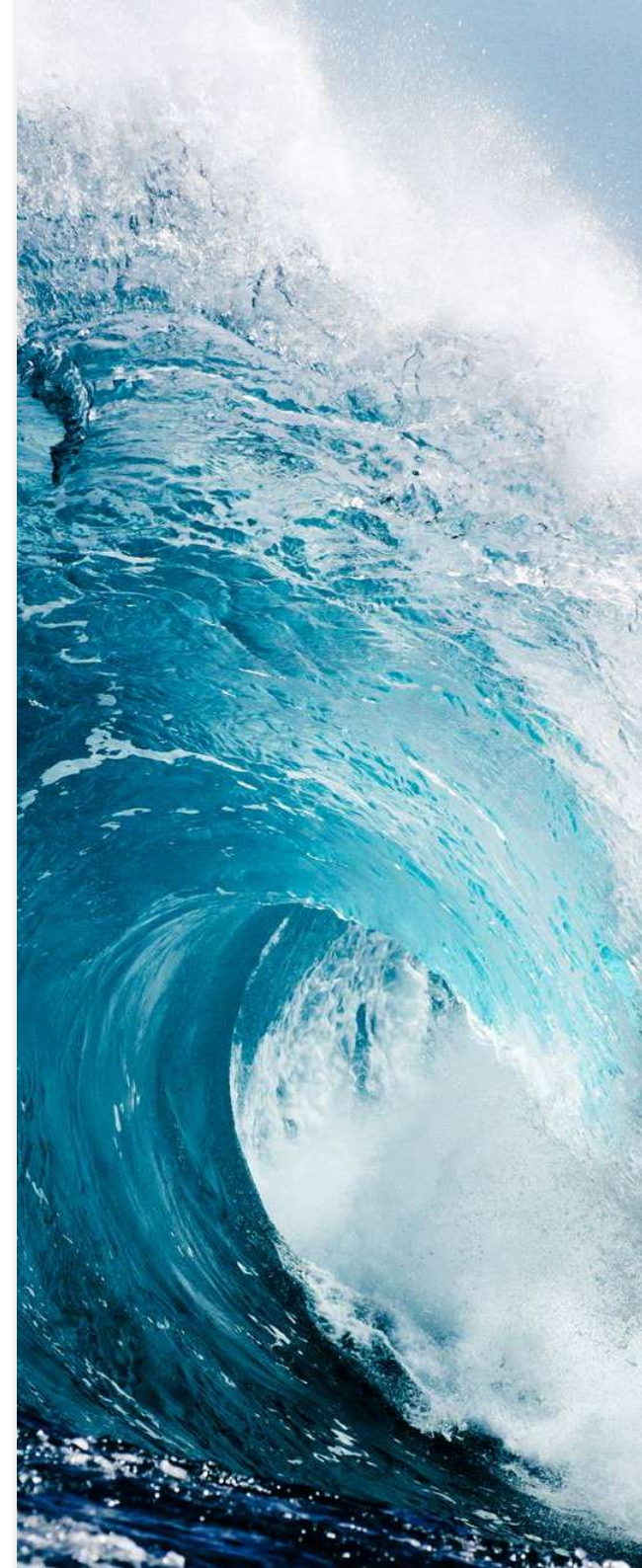
(3) This reflects the additional work required to understand and assess the Pension Fund's IT control environment. This work is carried out by IT audit specialists.

(4) This reflects the additional work we are required to perform on the data provided to the actuary for the purposes of the triennial valuation of the fund as at 31/3/22.

(5) Our audit of the 2021/22 financial statements is not fully concluded at the date of this report (please see the outstanding matters listed on page 35). The fees shown are indicative and will be confirmed once all audit work is complete.

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# FRC Ethical Standard

Issued in December 2019

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It is now around three years since the FRC's Revised Ethical Standard 2019 ('ES') came into force. It aimed to further strengthen auditor independence and enhance confidence in the profession and was, in many ways, a precursor to the Corporate Governance and Audit Reform debate

that is still ongoing. Although the ES is now well-established it is worth taking time to reconsider some of its most important changes and ensure your internal policies and procedures are effective.

| Key headlines  | Impact   |
|--|--|
| <b>The objective, reasonable &amp; informed third party test</b> | Reinforcement that ethical principles take priority over rules. A need to take care where particular facts and circumstances are either not addressed directly by the rules or might appear to 'work around' the rules, or result in an outcome that is inconsistent with the general principles and the public interest.  |
| <b>Extra-territorial impact</b>                                  | For group audits where the audited entity has overseas operations, the ES will require all BDO Member firms to be independent of the UK audited entity and its UK and overseas affiliates in accordance with the ES, irrespective of if their audit work is relied upon.   |
| <b>Contingent fees</b>   | Non audit services with contingent or success-based fee arrangements will be prohibited for audited entities.  |
| <b>Secondments</b>   | All secondments/loan staff to audited entities are prohibited with the exception of secondments to public sector entities.   |
| <b>Recruitment and remuneration services</b>                     | Prohibition on providing remuneration services to audited entities such as advising on the quantum of the remuneration package or the measurement criteria for calculation of the package. In addition, the prohibition on providing recruitment services to an audited entity that would involve the firm taking responsibility for, or advising on the appointment of, any director or employee of the entity.   |
| <b>Non audit services to a public interest entity (PIE)</b>      | Moving to a "white-list" of permitted non audit services for PIEs. The white-list largely consists of services which are either audit-related or required by law and/or regulation. The provision of services not on the white-list are prohibited. The ES separates those permitted services which are exempt from the 70% fee cap and those services which are subject to the fee cap.   |
| <b>Other entities of public interest ('OEPI')</b>                | OEPI is a new term in the ES. The FRC have imposed the 'white-list' applicable to PIE audited entities to also apply to OEPIs. OEPIs are entities which, according to the FRC, do not meet the definition of a PIE but nevertheless are of significant public interest to stakeholders. They include AIM listed entities which exceed the threshold to be an <i>SME listed entity</i> - generally those with a market cap of more than €200m; Lloyd's syndicates; Private sector pension schemes with more than 10,000 members and more than £1billion of assets; Entities that are subject to the governance requirements of The Companies (Miscellaneous Reporting) Regulations 2018 (SI/2018/860), excluding fund management entities which are included within a private equity or venture capital limited partnership fund structure. These would be entities which: <ul style="list-style-type: none"> <li>- Have more than 2000 employees and / or</li> <li>- Have a turnover of more than £200 million and a balance sheet total of more than £2 billion.</li> </ul> <p>The FRC have noted that the rules applicable to OEPIs will apply from periods commencing on or after 15 December 2020.</p> |

# FRC Practice Aid for Audit Committees

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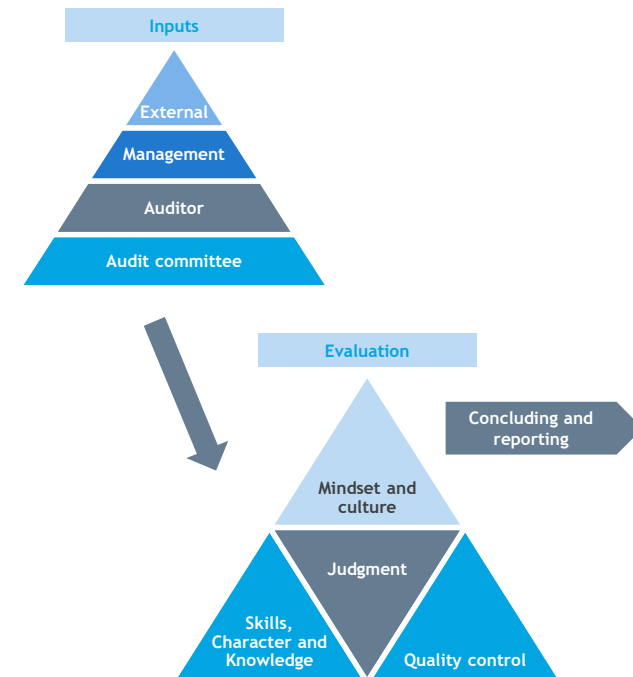
The Financial Reporting Council (FRC) issued an updated practice aid for audit committees in December 2019 and a full copy can be found on the [FRC website](#). In their practice aid the FRC note: 'The directors of a company (the Board as a whole) are responsible for ensuring its financial statements are prepared in accordance with the applicable financial reporting framework and for overseeing the company's internal control framework. A high-quality audit provides investors and other stakeholders with a high level of assurance that the financial statements of an entity give a true and fair view and provide a reliable and trustworthy basis for taking decisions.'

The practice aid then discusses how the role of audit committees in serving the interests of investors and other stakeholders is through their independent oversight of the annual corporate reporting process including the audit. The FRC highlight that the responsibility for appointing the external auditor, approving their remuneration and any non audit services work, ensuring their independence and challenging them over the quality of their work falls to the audit committee and can play a key role in facilitating a high quality audit (see note below).

It gives guidance for Audit Committees in the following areas:

- ▶ Audit tenders and the tender process including audit fee negotiations and auditor independence
- ▶ A model for use by audit committees in making an overall assessment of an external auditor including inputs, evaluations and concluding
- ▶ Transparency - reporting to the Board on how the audit committee has discharged these responsibilities
- ▶ Some guidance on key areas of audit judgement

The provision of high quality audits are a key focus of FRC and the new Executive Director of Supervision, David Rule, sent a letter to all audit firms in November 2019 explaining the factors he would expect to see in place in order to facilitate the delivery of high quality audits. A copy of the letter can be found on the [FRC website](#)



# Our responsibilities

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## Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your financial statements. We report our opinion on the financial statements to the members of the Trust Board.

We read and consider the 'other information' contained in the Annual Report such as the Performance Report and the Accountability Report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

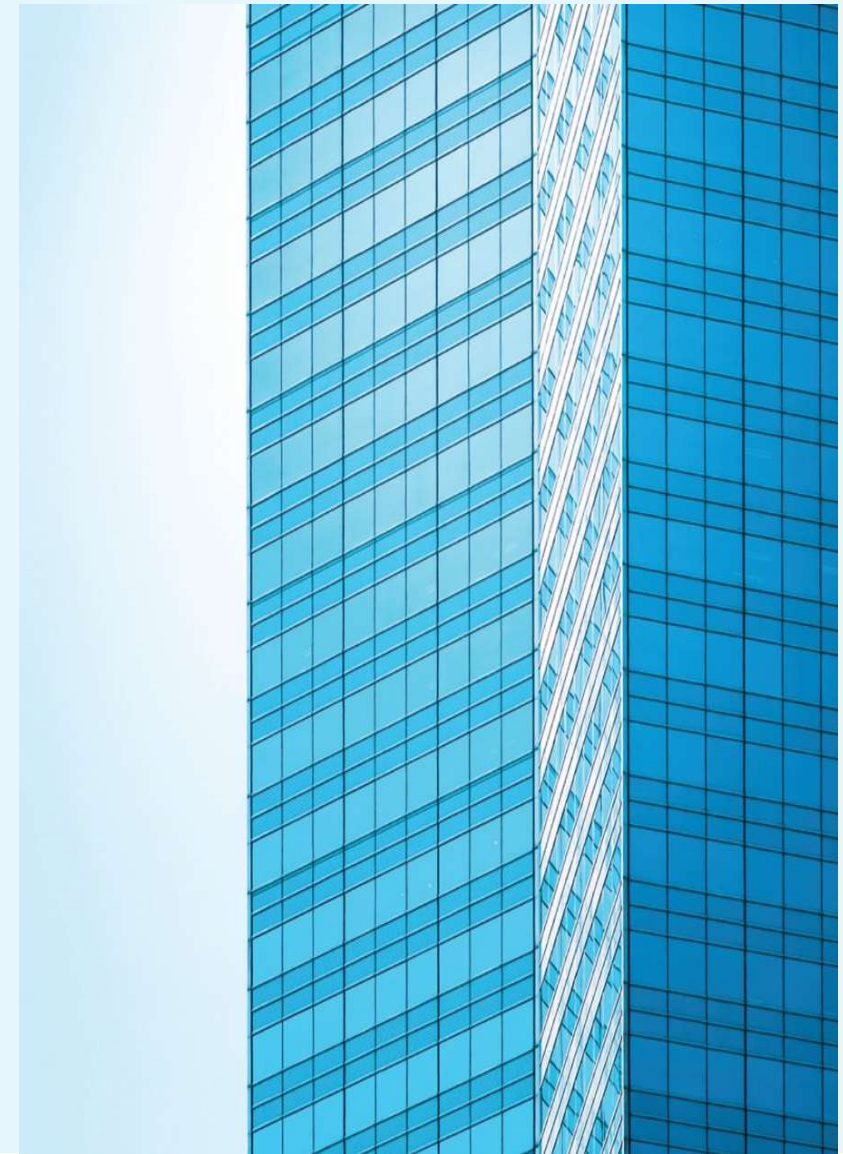
For statutory other information, such as the auditable parts of the Remuneration and Staff Report, we will form an opinion on whether the information given in the other information is consistent with the financial statements and our knowledge obtained in the audit and whether the audited disclosures have been prepared in accordance with applicable legal requirements.

We report by exception, any significant weaknesses identified our work on the Trust's value for money arrangements and a summary of associated recommendations made.

We review the Whole of Government Accounts (WGA) return provided to NHS Improvement and express an opinion on the return whether it is consistent with the audited financial statements.

## What we don't report

Our audit is not designed to identify all matters that may be relevant to the Audit and Assurance Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist



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## Those Charged with Governance (TCWG)

References in this report to Those Charged With Governance are to the Trust Board as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the We request feedback from Audit and Assurance Committee.

## Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

| Communication required  | Date (to be) communicated | To whom                                   | Communication method    |
|-------------------------|---------------------------|---|-------------------------|
| Audit Planning Report   | 14 October 2022           | Audit, Governance and Standards Committee | Audit Planning Report   |
| Audit Completion Report | 29 July 2024              | Audit, Governance and Standards Committee | Audit Completion Report |



# Outstanding matters

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We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2022.

The following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on their current status at the Audit, Governance and Standards Committee meeting at which this report is considered:

- ▶ Completion of substantive testing of membership data provided to the actuary to support the triennial valuation of the fund at 31 March 2022
- ▶ Completion of audit procedures relating to contingencies and commitments and subsequent events
- ▶ Review of the above procedures by manager and partner and clearance of any review points arising by the audit team
- ▶ Receipt of final version of financial statements and completion of audit checks to confirm agreed changes have been made, arithmetical accuracy and internal consistency
- ▶ Review of the Annual Report and Accounts for consistency with the audited financial statements and our wider understanding of the Pension Fund
- ▶ Obtain letter of representation



# ISA (UK) 315 Revised (June 2020) identifying and assessing the risks of material misstatement

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The standard introduces significant changes in approach to risk identification and assessment, which are intended to drive a more focused response from auditors to identified risks. There are some implications for the way that we carry out our audits which include the following:

- ▶ Our risk assessment procedures are to be designed and performed in such a way that the information obtained provides an appropriate basis to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion level. Approaching risk assessment procedures in this way facilitates targeted test design, focusing on the areas that really matter.
- ▶ We will put an increased focus on understanding the IT environment and the entity's system of internal control
- ▶ The way that we assess risk will be enhanced to consider:
  - ▶ Inherent Risk of material misstatement and Control Risk separately
  - ▶ Clearly defined inherent risk factors to enhance inherent risk assessment
  - ▶ A broader spectrum of risk categories which will involve a more granular consideration of risk
- ▶ A new stand-back requirement for material classes of transactions, balances and disclosures.

Two of the key benefits to these changes are expected to be:

- ▶ An ability to scale and flex our audit approach to the specific circumstances of the audited entity
- ▶ Clearer link between the risk and the resulting work effort, to ensure we put audit effort where it is needed.

## Effective Date

- ▶ The ISA is effective for audits of financial statements for periods beginning on or after 15 December 2021.

## How does this impact your audit?

- ▶ BDO Risk Identification and Assessment Methodology has been revised to comply with the requirements of the revised ISA.
- ▶ Your audit team expect to spend more time understanding the entity at the planning phase of the audit, spending more time planning, and the planning will be a more interactive and iterative process.
- ▶ Audit fees reflect our increased investment in complying with these new requirements.
- ▶ As a product of this additional focus, you may receive greater insight into your control environment and have a better understanding of our assessment of risks and what could go wrong in your financial reporting processes.



# Audit quality

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## BDO is totally committed to audit quality

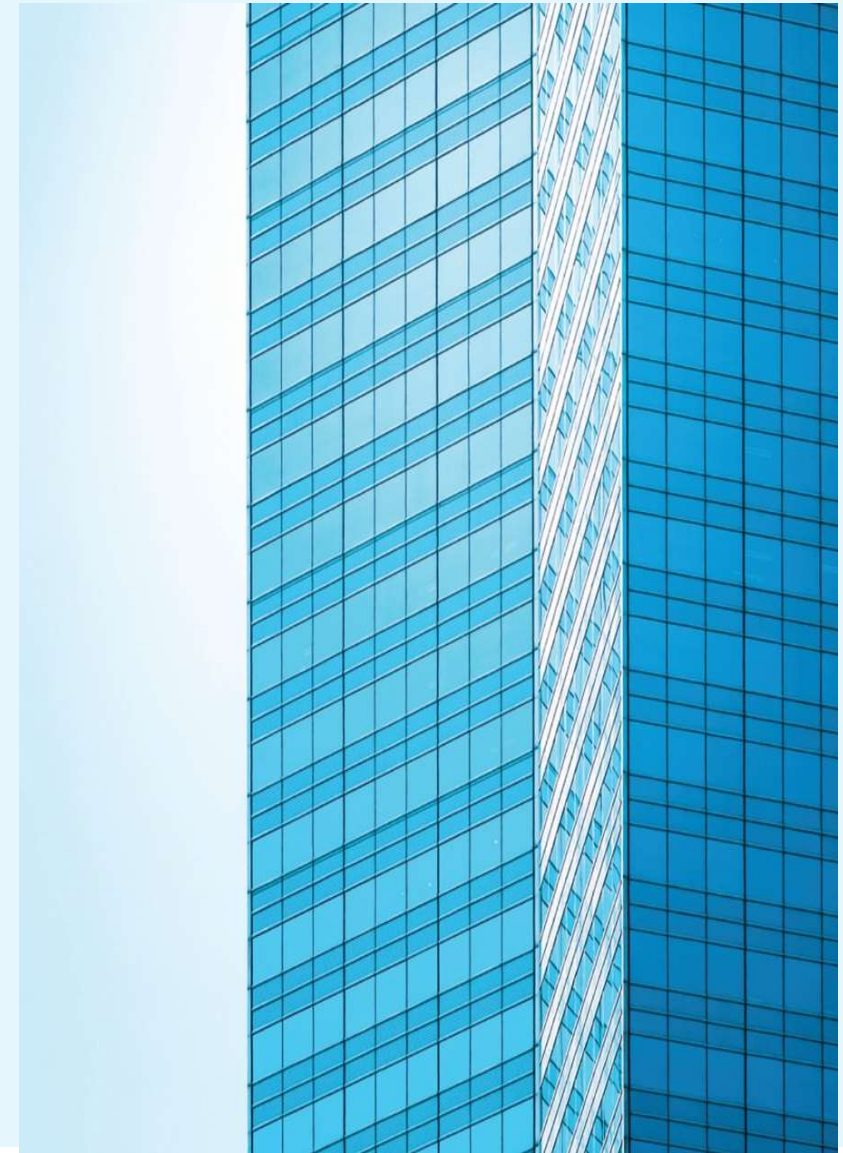
It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at [www.bdo.co.uk](http://www.bdo.co.uk)



# Our Culture of Challenge

## High Performing Teams

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***“The Right people, supported to do the Right Work, in the Right place at the Right time. In short doing the Right thing. Always.”***

A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. While the ICAEW Code of Ethics provides guidance on how a professional accountant fulfils their duty, the focus of our firm, and auditors individually is to discharge our obligation to serve the public interest by consistently performing quality audit engagements.

Our work as auditors is fundamental to the success of the business world, enabling decisions based on transparent financial reporting that is trusted. The purpose of an audit is to help establish and maintain deserved confidence in a Pension Fund, in its directors and in the information which they have responsibility to report, including the financial statements.

Quality is represented in our strategic framework in two important and distinct ways:

- The first is that we are committed to serving the public interest by consistently performing quality engagements - this is particularly important for two reasons: firstly, that it is the right thing to do and secondly, that it's required of by the international standards on quality management.
- The second commitment is to high quality, independence and ethics, which is broader than just our performance on individual audit and non-audit engagements and recognises the importance of high quality in everything we do.

Our Audit Specific Behaviours provide guidance and set consistent expectations for our auditor teams to ensure our day-to-day interactions and decision making come together to create High Performing Teams, that do the right thing. Always.

Read our latest Transparency Report on the BDO website.



# Our system of quality management

## ISQM (UK) 1 - Communication with you

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Over the last two years we have invested, and continue to invest, significantly in our people, training and systems to improve the consistency of the quality of our audits. BDO has a significant number of processes and procedures across the firm which manage audit quality. We set out a summary of the processes and procedures that support audit quality in our 2023 Transparency Report, which was published in October 2023 and is available on our website. Following a rigorous internal assessment we have concluded that, as designed, we have been unable to perform sufficient internal testing at this stage, in accordance with the requirements of ISQM (UK) 1, to conclude whether our system of quality management provides reasonable assurance that the objectives of our system of quality management are being achieved or not.

We are currently in the process of enhancing our risk assessment to ensure completeness of risk identification, and enhancing our corresponding processes and procedures to ensure they are designed, implemented and operating effectively to mitigate the risks. In addition, we are embedding controls in our processes and procedures to enable sufficient internal testing to be undertaken in accordance with the requirements of ISQM (UK) 1 which will allow us to conclude whether our system of quality management is operating effectively. While we continue to make progress in establishing a framework which meets the requirements of ISQM (UK) 1, we continue to rely on the significant processes and procedures that are set out in our 2023 Transparency Report. We expect to publish our conclusion on whether our system of quality management provides reasonable assurance that the objectives of our system of quality management are being achieved in our 2024 Transparency Report.

**For more information:**

Ciaran McLaughlin

e: [ciaran.mclaughlin@bdo.co.uk](mailto:ciaran.mclaughlin@bdo.co.uk)

m: +44 (0) 1473 944 736

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the Pension Fund and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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|  |                         |
|--|-------------------------|
| <b>Report title:</b> 2022/23 Audit Planning Report for Essex County Council  |                         |
| <b>Report to Audit, Governance and Standards Committee</b>   |                         |
| <b>Report author:</b> Nicole Wood, Executive Director, Corporate Services  |                         |
| <b>Date of meeting:</b> 29 July 2024   | <b>For:</b> Information |
| <b>Enquiries to</b> Nicole Wood, Executive Director, Corporate Services <b>email</b> <a href="mailto:nicole.wood@essex.gov.uk">nicole.wood@essex.gov.uk</a> or Christine Golding, Chief Accountant <b>email</b> <a href="mailto:Christine.golding@essex.gov.uk">Christine.golding@essex.gov.uk</a> |                         |
| <b>Divisions affected</b> All Essex  |                         |

## 1. Executive Summary

- 1.1 The Audit, Governance and Standards Committee has responsibility for approving the Council's Annual Statement of Accounts, and for receiving and considering related reports issued by the Council's External Auditor.
- 1.2 The draft Statement of Accounts for the 2022/23 financial year was released for external audit and was published on the Council's website on **31 May 2023**, and was presented to the Audit, Governance and Standards Committee for information on **5 June 2023** (AGS/19/23). The Council's Section 151 Officer has yet to certify the draft Statement of Accounts for the 2022/23 financial year though and, consequently, has yet to commence the statutory public inspection period for the 2022/23 Accounts.
- 1.3 Although the 2021/22 external audit is still underway, the External Auditor has been able to undertake the planning work for the 2022/23 audit.
- 1.4 The purpose of this report is to present the External Auditor's 2022/23 Audit Planning Report for Essex County Council, as appended. A separate report on the agenda presents the Audit Planning Report for the Essex Pension Fund.

## 2. Recommendations

- 2.1 That the Committee notes the content of the External Auditor's report.

### **3. Background**

- 3.1 The draft Statement of Accounts for the 2022/23 financial year was released for external audit and was published on the Council's website on **31 May 2023**, and was presented to the Audit, Governance and Standards Committee for information on **5 June 2023 (AGS/19/23)**.
- 3.2 While the draft Statement of Accounts was produced in compliance with the statutory timescales for 2022/23, the accounts were produced against a backdrop of having the prior two financial years' external audits still open.
- 3.3 The 2020/21 audit was subsequently completed in January 2024, and the 2021/22 audit is nearing completion, although has not yet been concluded.
- 3.4 Alongside work on the 2021/22 audit, the External Auditor has undertaken their audit planning work for the 2022/23 audit and is now able to present the Audit Planning Report for 2022/23 to the Committee for consideration.

### **4. Audit Planning Report**

- 4.1 The purpose of the Audit Planning Report is to explain how the External Auditor intends to carry out their responsibilities as auditor of the Council. Specifically, the Audit Planning Report provides the Committee with a basis to review the External Auditor's approach and scope for the 2022/23 audit, to ensure that they are aligned with the Committee's expectations.
- 4.2 The attached plan summarises BDO's assessment of the key risks driving the development of an effective audit for the Council and outlines the planned audit strategy in response to those risks.
- 4.3 The scope of the audit is determined by the National Audit Office's Code of Audit Practice which sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014.
- 4.4 The plan also summarises BDO's proposed timelines for completion of their audit of the Council, including the audit review of the Council's arrangements to secure value for money in its use of resources.
- 4.5 BDO welcome the opportunity to discuss the plan with the Committee.



## **5. 2022/23 Accounts**

- 5.1 The Committee are reminded that, in view of the delays to completion of the 2020/21 and 2021/22 external audits, the Council's Section 151 Officer concluded that it was not appropriate to certify that the draft Statement of Accounts for the 2022/23 financial year provide a true and fair view of the financial position and performance of the Council for the year then ended.
- 5.2 A direct consequence of the Section 151 Officer being unable to certify the draft Statement of Accounts for 2022/23 is that it has not yet been possible to commence the statutory public inspection period for the 2022/23 Accounts. The public inspection period, which must run for 30 working days, will need to take place before the auditor is able to close the 2022/23 audit.
- 5.3 Although completion of the 2021/22 audit has been delayed, it is hoped that the external auditor will nevertheless be able to provide sufficient assurances to the Section 151 Officer regarding the outcome of the 2021/22 audit in early August, to enable the Section 151 Officer to certify the draft 2022/23 Statement of Accounts, and to run the public inspection period on the 2022/23 accounts, during August / September 2024.
- 5.4 When the Section 151 Officer does certify the accounts, and launch the public inspection period, all Committee members will receive a certified draft of the Statement of Accounts for 2022/23. The final 2022/23 accounts will obviously be approved by the Committee when the audit has been completed, in the usual way.

## **6. Policy context and Outcomes Framework**

- 6.1 The Audit Planning Report explains the approach that BDO intends to take to provide their opinion on the financial statements of the Council and to provide commentary on its arrangements to secure value for money in the use of resources.

## **7. Financial Implications**

- 7.1 The Audit Planning Report includes a summary of the proposed audit fees for the 2022/23 audit, which amount to **£243,465**. The scale fees are set by Public Sector Auditor Appointments Ltd (PSAA), as the auditor appointing body, and any fee variations that are proposed by BDO will ultimately be subject to the PSAA's approval.

## **8. Legal Implications**

- 8.1 External audit is a statutory requirement which can only be undertaken by a qualified auditor appointed following the correct legal process. If done effectively it can provide some assurance that the Council has a sound system of internal controls, that risks are being effectively managed, and that money is being spent effectively.
- 8.2 The legally appointed auditor is entitled to charge statutory fees and to do further work, and charge further fees, if they consider it necessary in accordance with the legislation.
- 8.3 A key task of the Audit, Governance and Standards Committee is to review the proposed work plan and suggest any areas that they feel should be looked at as part of the external audit.
- 8.4 The 2022/23 accounts are currently an uncertified but published draft. They are awaiting sign off by the section 151 officer who is waiting for the completion of the audit of the 2021/22 accounts so that she can make any necessary changes to the published (unsigned) statement of accounts for 2022/23. Once signed they will need to be subject to the statutory period of inspection and representation.

## **9. Staffing and other resource implications**

- 9.1 The 2022/23 external audit is being undertaken over 12 months after the end of the 2022/23 financial year. It is also being undertaken concurrently to completion of the 2021/22 audit, and potentially alongside the audit planning and early field work for the 2023/24 audit. The delayed and protracted nature of the external audits continues to put pressure on the Council's Finance Team, but every effort continues to be made to respond promptly to audit requests and queries.

## **10. Equality and Diversity implications**

- 10.1 There are no equality and diversity implications associated with this report.

## **11. List of appendices**

- 11.1 Appendix 1 – 2022/23 Audit Planning Report for Essex County Council.

## **12. List of Background Papers**

- 12.1 Previous related report to the Audit, Governance and Standards Committee:
- Draft Statement of Accounts and Annual Governance Statement 2022/23 (**5 June 2023 – AGS/19/23**).

- Update on the 2021/22 and 2022/23 external audits of the Council and Essex Pension Fund (**25 March 2024 – AGS/14/24**).



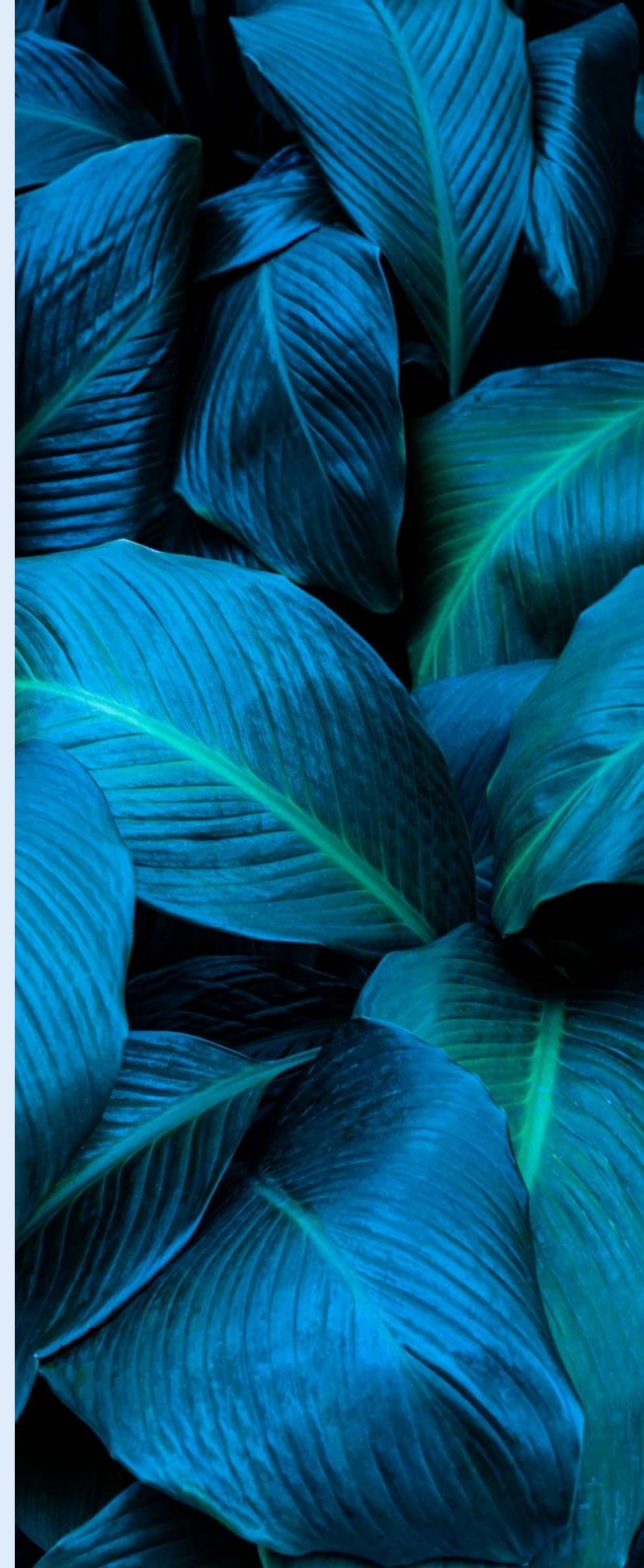
# Essex County Council

Audit Planning Report: Year ended 31 March 2023

Report to the Audit, Governance and Standards Committee

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# Welcome

## Introduction

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We have pleasure in presenting our Audit Planning Report to the Audit, Governance and Standards Committee of Essex County Council (the 'Council'). This report forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process with those charged with governance.

It summarises the planned audit strategy for the year ended 31 March 2023 in respect of our audit of the financial statements and use of resources; comprising materiality, key audit risks and the planned approach to these.

At the time of writing, our risk assessment procedures remain ongoing. Should any new audit risks not included in this planning report be identified, we will discuss these with management and communicate them to those charged with governance as soon as is practicable.

The planned audit strategy has been discussed with management to ensure that it incorporates developments in the business during the year under review, the results for the year to date and other required scope changes.

We look forward to discussing this plan with you at the Audit, Governance and Standards Committee meeting on 29 July 2024 and to receiving your input on the scope and approach.

In the meantime if you would like to discuss any aspects in advance of the meeting please contact one of the team.

**Ciaran McLaughlin**, Partner  
For and on behalf of **BDO LLP**, Appointed Auditor

17 July 2024



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# Overview

## Audit scope and objectives

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Key components of our audit objectives and strategy for the Group are highlighted and explained on the following pages.

Audit planning is a collaborative and continuous process and our audit strategy, as reflected here, will be reviewed and updated as our audit progresses.

We will communicate any significant changes to our audit strategy, should the need for such change arise.

| Reporting   | Objectives  |
|---|---|
| <b>Auditing standards</b>   | We will perform our audit in accordance with International Standards on Auditing UK (ISAs (UK)) and relevant guidance published by the National Audit Office.   |
| <b>Financial statements</b>   | We will express an opinion on the Council and Group financial statements, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting 2022/23 and other directions.  |
| <b>Statement of Accounts</b>  | In addition to our objectives regarding the financial statements, we will also read and consider the other information contained in the Statement of Accounts to consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.  |
| <b>WGA</b>  | We will review the Whole of Government Accounts (WGA) return and express an opinion on the return whether it is consistent with the audited financial statements  |
| <b>Additional powers and duties</b>   | Where necessary we may be required to: issue of a report in the public interest; make a written recommendation to the Council; allow local electors to raise questions and objections on the accounts; or exercise legal powers to apply to the courts for a declaration that an item of account is contrary to law, issue an advisory notice or an application for a judicial review.  |
| <b>Audit report - fraud and other irregularities</b>                            | We will include an explanation setting out the capability of the audit to detect irregularity and our response to risks identified. An irregularity is defined as "Acts of omission or commission intentional or unintentional, committed by the entity, or by those charged with governance, by management or by other individuals working for or under the direction of the entity, which are contrary to the prevailing laws or regulations. Non-compliance does not include personal misconduct unrelated to the business activities of the entity." (ISA (UK) 250A). |
| <b>Audit Completion Report to the Audit, Governance and Standards Committee</b> | Prior to the approval of the financial statements, we will discuss our significant findings with the Audit, Governance and Standards Committee. We will highlight key accounting and audit issues as well as internal control findings and any other significant matters arising from the audit.  |
| <b>Use of resources and Auditor's Annual Report</b>                             | We will provide a commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. The commentary will explain the work that we have undertaken and highlight any significant weaknesses identified, along with any recommendations for improvement. The commentary will also draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the Council.   |

Under proposals to address the effect of the new local government audits, the National Audit Office has consulted on changes to the Code of Audit Practice under which auditors are still expected to undertake value for money work with a reduced scope. Further information is included on page 15 of this report.

The Auditor's Annual Report is required to be published by the Council.

# The numbers

## Executive summary

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This summary provides an overview of the audit scope and materiality for the year ended 31 March 2023.

### Audit scope

The scope of the audit is determined by the National Audit Office’s Code of Audit Practice that sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. This includes: auditing the financial statements and consolidated entities (together the ‘Group’); reviewing the arrangements to secure value for money through the economic, efficient and effective use of its resources; and, where appropriate, exercising the auditor’s wider reporting powers and duties.

Our approach is designed to ensure we obtain the requisite level of assurance in accordance with applicable laws, appropriate standards and guidance issued by the National Audit Office.

ISA (UK) 315 (Revised) introduces significant changes in approach to risk identification and assessment, which are intended to drive a more focused response from auditors to identified risks. The introduction of this standard has a number of implications for the way that we will carry out this period’s audit. These are highlighted in further detail later in this report.

### Materiality

Materiality for the Group has been set at 2% of gross expenditure for the period (prior year 1.75%) and is outlined in the adjacent chart. Component materiality, including that of the Council as a single entity, is detailed on page 7 of this report.

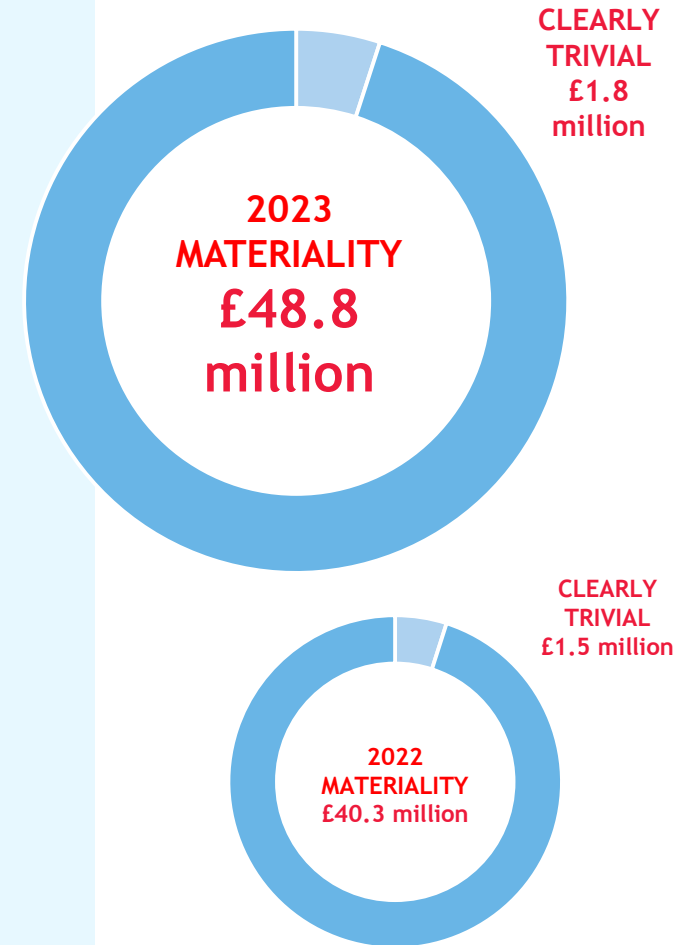
Although materiality is the judgement of the audit partner, the Audit, Governance and Standards Committee is obliged to satisfy themselves that the materiality chosen is appropriate for the scope of the audit.

For reporting purposes, we consider misstatements of less than £1.800 million (2022: £1.500 million) to be trivial unless the misstatement is indicative of fraud.

### Council’s responsibilities

The Section 151 Officer (Executive Director, Corporate Services) is responsible for the preparation of the Statement of Accounts and for being satisfied that these show a true and fair view in accordance with CIPFA Code of Practice on Local Authority Accounting 2022/23, applicable accounting standards or other direction under the circumstances.

Our audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of the financial statements.





# Independence and fees

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### Independence

We confirm that the firm, and the engagement team conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard and the IESBA Code of Ethics and are independent of the Group.

Details of services, other than audit, provided by us to the Group during the period and up to the date of this report are set out in the table below. We have not identified any threats to our independence arising from the provision of these services.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

### Audit fees

Audit fees are indicative and are based on our risk assessment at the planning stage of our audit. The increase in audit fees between 2022 and 2023 is driven by the introduction of ISA (UK) 315 (Revised). Further detail is provided in the appendices to this report.

We have also introduced further changes in our audit approach to enhance audit quality, in particular the involvement of Fraud and IT specialists in our work. Again, further details are included in the appendices to this report.

|  | Fees (£)               |                               |
|--|------------------------|-------------------------------|
|  | 2022/23 (Proposed)     | 2021/22 (Proposed)            |
| Statutory audit: Code Scale fee  | <sup>(1)</sup> 126,265 | 126,165                       |
| Additional recurring audit fee: audit approach   | <sup>(2)</sup> 33,500  | 33,500                        |
| Additional audit fee: ISA315 additional work (see page 23 for further details)                         | <sup>(3)</sup> 27,500  | -                             |
| Additional audit fee: Fraud risk assessment (see pages 24 and 25 for further details)                  | <sup>(4)</sup> 2,500   | -                             |
| Additional audit fee: risk related work for 2021/22  | -                      | 8,600                         |
| Additional recurring audit fee: new use of resources approach  | <sup>(5)</sup> 13,000  | 13,000                        |
| Additional recurring audit fee: IT environment and general controls (see pages 20 for further details) | 27,200                 | 27,200                        |
| <b>Total proposed audit fees</b>   | <b>229,965</b>         | <sup>(6)</sup> <b>208,865</b> |
| Fees for non-audit services  |                        |                               |
| Teachers' Pensions - agreed upon procedures  | 13,500                 | 13,500                        |
| <b>Total proposed fees</b>   | <b>243,465</b>         | <sup>(6)</sup> <b>220,515</b> |

### Fee variances

- (1) The Code fee quoted is the PSAA scale fee of £126,165
- (2) The audit fee relating to the audit approach reflects a recurring increase in the volume and detail of property valuations work.
- (3) This reflects the additional work required to meet the requirements of ISA 315 revised, which applies for the first time in 2022/23
- (4) This reflects enhancements made to our approach to fraud, including the use of our Forensics Specialist Audit Support team
- (5) The audit fee is based on audit scope under the Code of Audit Practice. A new Code became effective for periods commencing 1 April 2020 which significantly increased the work of auditors for reporting on a body's use of resources.
- (6) Our audit of the 2021/22 financial statements and use of resources work remains in progress at the date of this planning report. The fees shown are indicative and will be confirmed following completion of the 2021/22 audit.

# Audit scope entities and components

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As Group auditor we are required to design an audit strategy to ensure we have obtained the required audit assurance for each component for the purposes of our Group audit opinion ISA (UK) 600. A high-level overview of how we have designed the Group audit strategy is summarised below to ensure you have clear oversight of the scope of the work we intend to perform on each entity.

Audit Risks, covered later in this report, are cross referenced to each entity to provide clarity over how these arise within your business and where the focus of the audit work will be.

The clearly trivial threshold for the Group has been set at the Group level at £1.8 million. The clearly trivial threshold for the components is as set out in the table below.

| Entity                        | Nature of Operations | Audit classification      | Reason for classification | Audit Risks     | Component Materiality and basis of assessment | Component clearly trivial threshold | Audit strategy                    |
|-------------------------------|----------------------|---------------------------|---------------------------|-----------------|---|-------------------------------------|-----------------------------------|
| Essex County Council          | Local authority      | Significant component     | Size and risk             | Risks 1 - 7     | £48.6 million                                 | £1.8 million                        | Statutory audit performed by BDO. |
| Essex Cares Ltd               | Social care          | Non-significant component | Size                      | None identified | N/A   | N/A                                 | Desktop review performed by BDO   |
| Essex Housing Development LLP | House building       | Non-significant component | Size                      | None identified | N/A   | N/A                                 | Desktop review performed by BDO   |

# Overview of risks

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Our Audit Strategy is built on a risk based approach, so that audit work is focused on the areas of the financial statements where the risk of material misstatement is assessed to be higher.

We have discussed the changes to the business, systems and controls in the year with management and obtained their own view of potential audit risk in order to update our understanding of the Group's activities and to determine which risks impact on the numbers and disclosures in the financial statements.

Our risk assessment procedures remain on going and we will continue to update this assessment throughout the audit.

The following pages describe in more detail each risk in the table below, including the audit procedures we plan to complete to address the risk. These procedures are designed to provide assurance against one or more of five 'assertions' identified as being relevant to that risk. These assertions are as follows:

C - Completeness

E - Existence

A - Accuracy

V - Valuation

P - Presentation

| # | Risk identified                                       | Risk rating | Fraud risk present | Testing approach | Impact of significant judgements and estimates |
|---|---|-------------|--------------------|------------------|--|
| 1 | Management override of controls                       | Significant | Yes                | Substantive      | High   |
| 2 | Fraud in revenue recognition                          | Significant | Yes                | Substantive      | High   |
| 3 | Expenditure cut-off                                   | Significant | Yes                | Substantive      | High   |
| 4 | Valuation of land and buildings                       | Significant | No                 | Substantive      | High   |
| 5 | Valuation of net pension liability/asset              | Significant | No                 | Substantive      | High   |
| 6 | Application of asset ceiling to the net pension asset | Significant | No                 | Substantive      | Low  |

# Risk 1

## Management override of controls

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|                     | C | E | A | V | P | 2022/23                       | 2021/22                       |
|---------------------|---|---|---|---|---|-------------------------------|-------------------------------|
| Management override | ✓ | ✓ | ✓ | ✓ | ✓ | All transactions and balances | All transactions and balances |

### Risk detail

- ▶ Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. We are required to consider this as a significant risk of material misstatement due to fraud.

### Planned audit approach

- Our audit procedures will include the following:
- ▶ A review and verification of journal entries made in the year, agreeing the journals to supporting documentation. We will determine key risk characteristics to filter the population of journals. We will use our IT audit specialists to assist with the journal extraction;
  - ▶ Evaluation of risks arising from automated journals
  - ▶ Assessment of findings from evaluation of design and implementation of IT general controls
  - ▶ A review of estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
  - ▶ Review of unadjusted audit differences for indications of bias or deliberate misstatement.

|   |   |
|---|---|
| ● | Significant risk                              |
|   | Elevated risk                                 |
|   | Moderate risk                                 |
| ● | Fraud risk                                    |
| ● | Related controls identified to mitigate risk  |
| ● | Significant Management estimates & judgements |
|   | Controls testing approach                     |
| ● | Substantive testing approach                  |



**Key to audit assertions:**

- |                  |               |                  |
|------------------|---------------|------------------|
| C - Completeness | A - Accuracy  | P - Presentation |
| E - Existence    | V - Valuation |                  |

# Risk 2

## Fraud in revenue recognition

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|                         | C | E | A | V | P | 2022/23          | 2021/22          |
|-------------------------|---|---|---|---|---|------------------|------------------|
| Specific revenue grants |   | ✓ | ✓ |   |   | £800.370 million | £787.997 million |

### Risk detail

- ▶ Auditing standards note that there is a presumed significant risk resulting from the intentional misstatement of revenue
- ▶ The amounts reported in relation to revenue represent information of significant interest to many users of the financial statements. This puts revenue at a greater risk of manipulation, bias and misstatement.
- ▶ For the Council, we consider the risk of fraudulent revenue recognition (primarily through manipulation of financial reporting) to be in respect of the existence and accuracy of revenue grants subject to specific performance conditions.

### Planned audit approach

- Our audit procedures will include the following:
- ▶ Testing a sample of grants included in income to supporting documentation from grant paying bodies and check whether recognition criteria have been met

|   |
|---|
| ● Significant risk                              |
| Elevated risk                                   |
| Moderate risk                                   |
| ● Fraud risk                                    |
| ● Related controls identified to mitigate risk  |
| ● Significant Management estimates & judgements |
| Controls testing approach                       |
| ● Substantive testing approach                  |



#### Key to audit assertions

- |                  |               |                  |
|------------------|---------------|------------------|
| C - Completeness | A - Accuracy  | P - Presentation |
| E - Existence    | V - Valuation |                  |

# Risk 3

## Expenditure cut-off

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|                             | C | E | A | V | P | 2022/23                         | 2021/22                         |
|-----------------------------|---|---|---|---|---|---------------------------------|---------------------------------|
| Expenditure around year end | ✓ |   |   |   |   | All expenditure around year end | All expenditure around year end |

### Risk detail

- ▶ For net-spending bodies in the public sector there is also risk of fraud related to expenditure. For the Council, we consider the risk of fraud to be in respect of the cut-off of expenditure at year-end.

### Planned audit approach

- Our audit procedures will include the following:
- ▶ Checking that expenditure is recognised in the correct accounting period by substantively testing a sample of expenditure around year-end.

|   |
|---|
| ● Significant risk                              |
| Elevated risk                                   |
| Moderate risk                                   |
| ● Fraud risk                                    |
| ● Related controls identified to mitigate risk  |
| ● Significant Management estimates & judgements |
| Controls testing approach                       |
| ● Substantive testing approach                  |



#### Key to audit assertions

C - Completeness

E - Existence

A - Accuracy

V - Valuation

P - Presentation

# Risk 4

## Valuation of land and buildings

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|                    | C | E | A | V | P | 2022/23        | 2021/22        |
|--------------------|---|---|---|---|---|----------------|----------------|
| Land and buildings |   |   |   | ✓ |   | £1.440 billion | £1.422 billion |

### Risk detail

- ▶ Local authorities are required to ensure that the carrying value of land and buildings is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date.
- ▶ The Council applies a five-year rolling revaluation programme to its land and buildings, with surplus assets and investment properties revalued annually. A market review is performed at the end of the financial year to determine whether material movements may have occurred since the valuation date. Property revaluations and the market review are undertaken by the Council's external property advisors.
- ▶ Due to the significant value of the Council's land and buildings, there is a risk over the valuation of these assets due to the high degree of estimation uncertainty and where updated valuations have not been provided for a class of assets at the year-end.

### Planned audit approach

- Our audit procedures will include the following:
- ▶ Reviewing the instructions provided to the valuer and the valuer's skills and expertise in order to determine if we can rely on the management expert;
  - ▶ Confirming that the basis of valuation for assets valued in year is appropriate based on their usage;
  - ▶ Reviewing accuracy and completeness of information provided to the valuer, such as rental agreements and floor areas;
  - ▶ Reviewing assumptions used by the valuer and movements against relevant indices for similar classes of assets;
  - ▶ Following up valuation movements that appear unusual; and
  - ▶ Confirming that assets not specifically valued in the year have been assessed to ensure their reported values remain materially correct.

|   |
|---|
| ● Significant risk                              |
| Elevated risk                                   |
| Moderate risk                                   |
| Fraud risk                                      |
| ● Related controls identified to mitigate risk  |
| ● Significant Management estimates & judgements |
| Controls testing approach                       |
| ● Substantive testing approach                  |



### Key to audit assertions

- |                  |               |                  |
|------------------|---------------|------------------|
| C - Completeness | A - Accuracy  | P - Presentation |
| E - Existence    | V - Valuation |                  |

# Risk 5

## Valuation of net pension asset

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|  | C | E | A | V | P | 2022/23          | 2021/22           |
|--|---|---|---|---|---|------------------|-------------------|
| <b>Net pension liability/asset (before application of asset ceiling)</b> |   |   |   | ✓ |   | £434.878 million | -£689.288 million |

### Risk detail

- ▶ There are risks around both the gross pension asset and the gross pension obligation, which together determine the net defined benefit pension asset/liability recognised in the Council's balance sheet.
- ▶ The gross pension asset comprises a variety of investments, including those which we consider to be 'harder to value' because there are no observable inputs (such as an active market for the investment). This increases the estimation uncertainty associated with the value of these investments, which include property, private equity and other managed funds.
- ▶ The valuation of the pension liability is a complex calculation involving significant judgements and assumptions. The actuarial estimate of the pension fund liability uses information on current, deferred and retired members and applies actuarial assumptions over pension increases, salary increases, mortality, commutation take up and discount rates to calculate the net present value of the liability.
- ▶ There is a risk that the membership data and cash flows provided to the actuary at year end may not be accurate, and that the actuary uses inappropriate assumptions to value the

liability. Relatively small adjustments to assumptions used can have a material impact on the Council's share of the scheme liability.

### Planned audit approach

- Our audit procedures will include the following:
- ▶ Agreeing the disclosures to the information provided by the pension fund actuary;
  - ▶ Reviewing the competence of the management expert (actuary);
  - ▶ Reviewing the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data;
  - ▶ Reviewing the controls in place for providing accurate membership data to the actuary;
  - ▶ Contacting the pension fund audit team and requesting confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data; and
  - ▶ Checking that any significant changes in membership data have been communicated to the actuary.

### Key to audit assertions

|                  |               |                  |
|------------------|---------------|------------------|
| C - Completeness | A - Accuracy  | P - Presentation |
| E - Existence    | V - Valuation |                  |

|   |
|---|
| ● Significant risk                              |
| Elevated risk                                   |
| Moderate risk                                   |
| Fraud risk                                      |
| ● Related controls identified to mitigate risk  |
| ● Significant Management estimates & judgements |
| Controls testing approach                       |
| ● Substantive testing approach                  |





# Risk 6

## Application of the asset ceiling to the defined pension asset

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|   | C | E | A | V | P | 2022/23          | 2021/22 |
|---|---|---|---|---|---|------------------|---------|
| Application of the asset ceiling to the defined pension asset |   | ✓ | ✓ | ✓ |   | £452.921 million | N/A     |

**Risk detail**

- ▶ The initial actuarial valuation undertaken to support the defined benefit pension scheme entries in the Council's 2022/23 accounts calculated a net pensions asset for the Local Government Pension Scheme (LGPS) of £452.921m at 31 March 2023.
- ▶ The CIPFA Code of Practice on Local Authority Accounts and the underlying accounting standards require the Council to restrict the net pension asset to a value which reflects the economic benefits available to it in the form of refunds from the pension scheme or reductions in future contributions to the plan. This restriction is also known as the asset ceiling.
- ▶ The application of the asset ceiling is dependent upon both the way in which the requirements of the applicable accounting standards (IAS 19 and IFRIC 14) interact with the legislation governing the LGPS and the assumptions and estimation uncertainty inherent in the underlying calculations required to calculate the asset ceiling.
- ▶ This complexity results in a risk that that the asset ceiling is incorrectly calculated and/or accounted for in the Council's financial statements.

**Planned audit approach**

- Our audit procedures will include the following:
- ▶ Review the proposed treatment of the net pension asset against the requirements of the CIPFA Code, IAS 19 and IFRIC 14
  - ▶ Determine whether the relevant statutory requirements of the Local Government Pension Scheme (in particular those relating to any minimum funding requirement) have been considered when determining the asset ceiling
  - ▶ Review the calculations performed by management's expert against the requirements of IFRIC 14 and corroborate amounts used in the calculations to supporting evidence. Where necessary, we will utilise the work of the consulting actuary (as auditor's expert) to obtain assurance.
  - ▶ Confirm that the asset ceiling has been correctly accounted for and disclosed in the Council's financial statements.

|   |
|---|
| ● Significant risk                              |
| Elevated risk                                   |
| Moderate risk                                   |
| Fraud risk                                      |
| ● Related controls identified to mitigate risk  |
| ● Significant Management estimates & judgements |
| Controls testing approach                       |
| ● Substantive testing approach                  |



**Key to audit assertions**

- |                  |               |                  |
|------------------|---------------|------------------|
| C - Completeness | A - Accuracy  | P - Presentation |
| E - Existence    | V - Valuation |                  |

# Use of Resources

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## Code of Audit Practice (the 'Code') requirements

The Comptroller & Auditor General has determined through the Code and guidance that the key output from local audit work in respect of value for money (VFM) arrangements is a commentary as reported in the Auditor's Annual Report, not a VFM arrangements 'conclusion' or 'opinion'. There may be matters referred to in the auditor's commentary that do not represent significant weaknesses in arrangements and where significant weaknesses are reported we are required to also report recommendations.

As auditors we need to gather sufficient evidence and document our evaluation of arrangements to enable us to draft our commentary under three reporting criteria. These criteria are:

- ▶ Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services
- ▶ Governance - How the Council ensures that it makes informed decisions and properly manages its risks
- ▶ Improving economy, efficiency and effectiveness ('Improving 3Es') - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

In addition to new assessment criteria and commentary requirements, the scope of the Code also considerably increases auditors' requirements for planning documentation and management should expect an increase in requests for discussion and evidence to facilitate this requirement.

Under proposals to address the current backlog of local government audits, the National Audit Office has consulted on changes to the arrangements described above. Auditors are still expected to undertake value for money work but with a reduced scope which removes the requirement to consider arrangements in place for improving economy, efficiency and effectiveness.

Auditors will also be permitted to report multiple year's work in a single Auditor's Annual Report. For the Council, we expect to report the outcome of our 2021/22 and 2022/23 VFM work in this way.

## Risk of Significant Weakness

We are required to report the results of our risk assessment to those charged with governance, including additional work planned in respect of any identified risks of significant weakness, and to keep our risk assessment under continual review, with any changes again communicated to those charged with governance.

Our use of resources risk assessment process for 2022/23 is still in progress and at the time of this report we do not have any significant weakness identified to report back to those charged with governance.

We will update the Audit, Governance and Standards Committee on risks of significant weakness and planned work when we have completed our risk assessment and planned response. Subject to risks being identified, we will issue an updated version of this report.



# Other matters requiring further discussion

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## Fraud

Whilst the directors of the Council have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit approach includes the consideration of fraud throughout the audit and includes making enquiries of management and those charged with governance. Further details on our approach to fraud are included on pages 24 and 25 of this report.

We have been made aware of a small number of low value actual, alleged or suspected incidences of fraud. We request confirmation from the Audit, Governance and Standards Committee on fraud and a discussion on the controls and processes in place to ensure timely identification and action.

## Accounting policies

We will report to you on significant qualitative aspects of your chosen accounting policies. We will consider the consistency and application of the policies and we will report to you where accounting policies are inconsistent with the CIPFA Code of Practice on Local Authority Accounting 2022/23 under the circumstances.

## Significant accounting estimates and judgements

We will report to you on significant accounting estimates and judgements.

We will seek to understand and perform audit testing procedures on accounting estimates and judgements including consideration of the outcome of historical judgements and estimates. We will report to you our consideration of whether Management estimates and judgements are within an acceptable range.

## Internal audit

We will ensure that we maximise the benefit of the overall audit effort carried out by internal audit and ourselves, whilst retaining the necessary independence of view.

We will review the reports issued by the Council's internal audit function although we do not plan place reliance on their work in respect of their assessment of control processes.

## Laws and regulations

We will consider compliance with laws and regulations. The most significant of these for your organisation includes VAT legislation, Employment Taxes, Health Safety and the Bribery Act 2010. We will make enquiries of management and review correspondence with the relevant authorities.



## Other matters requiring further discussion 2

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### **Related parties**

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for Management override or concealment or fraud. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of management.

### **Financial statement disclosures**

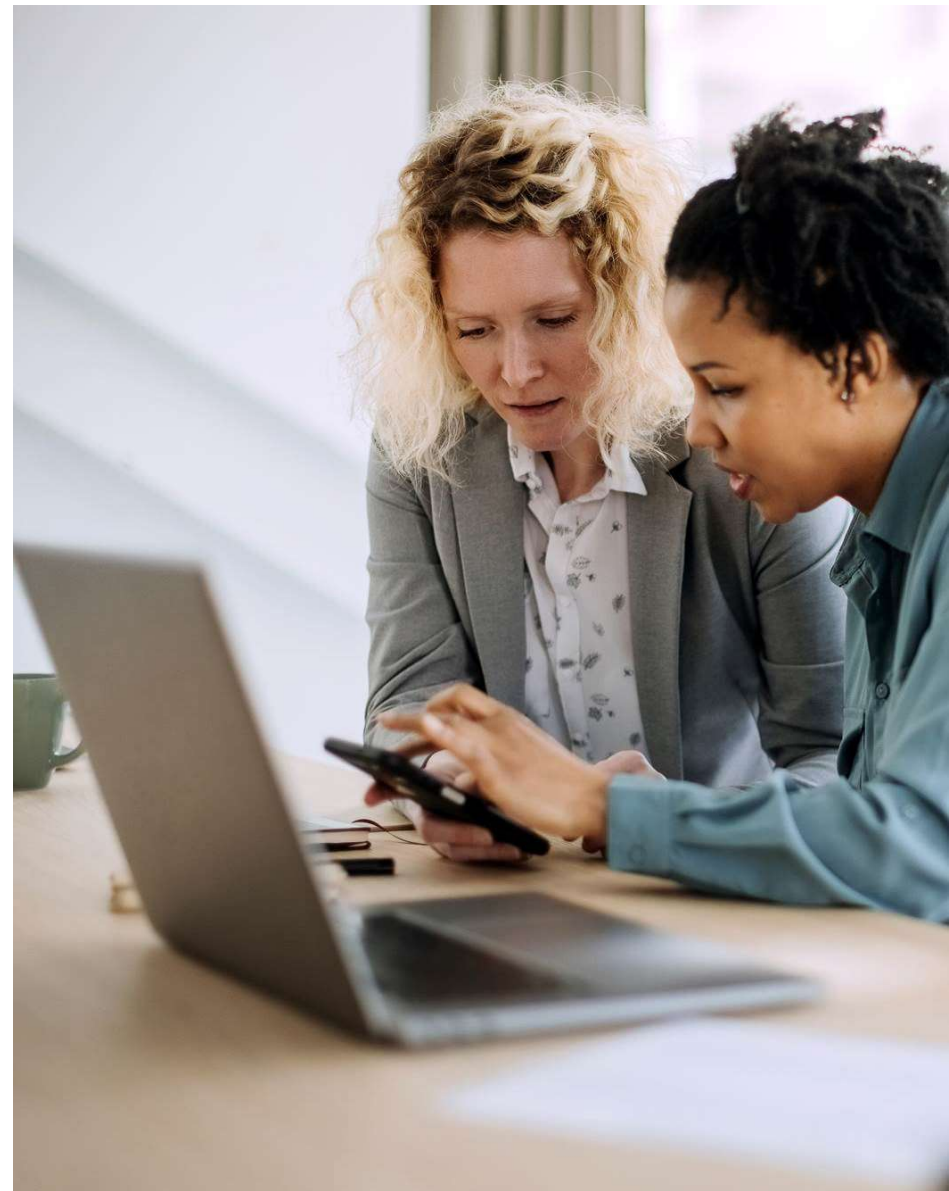
We will report to you on the sufficiency and content of your financial statement disclosures.

### **Contingencies**

We request input from the Audit, Governance and Standards Committee on any recent claims of which members are aware.

### **Any other matters**

We will report to you on any other matters relevant to the overseeing of the financial reporting process. Where applicable this includes why we consider a significant accounting practice that is acceptable under the financial reporting framework not to be the most appropriate.





# Irregularities (including fraud)

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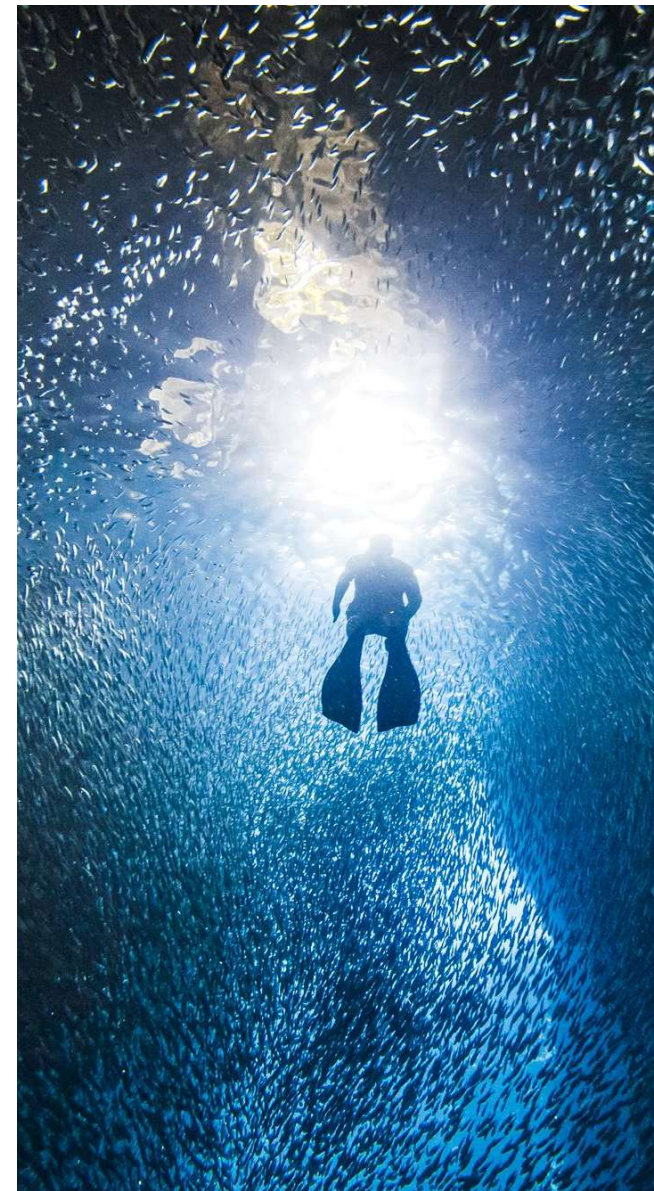
We are required to include in our auditor's report an explanation of the extent to which the audit is considered capable of detecting irregularities (non compliance with laws and regulations), including fraud.

Our audit is designed to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement whether due to fraud or error. We design audit procedures to respond to the risk of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and that irregularities that result from fraud might be inherently more difficult to detect than irregularities that result from error.

Our audit work will focus on laws and regulations that could give rise to a material misstatement in the Council's financial statements and may include, where appropriate:

- ▶ obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- ▶ enquiries of management, those charged with governance and the entity's legal advisers
- ▶ agreement of the financial statement disclosures to underlying supporting documentation;
- ▶ review of minutes of Council and Cabinet meetings throughout the year and of correspondence with regulatory authorities;
- ▶ written representations.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.





# Understanding your IT environment

## Overview

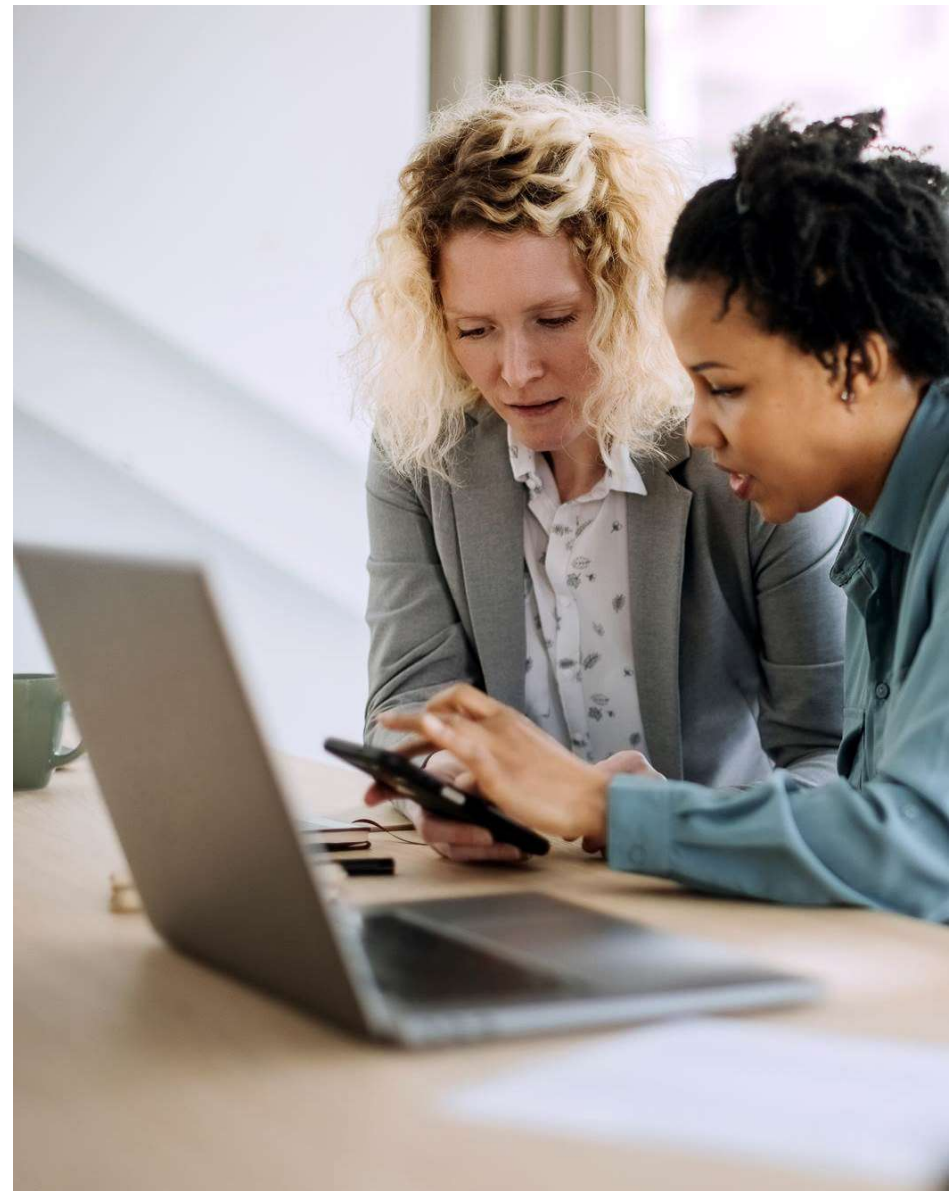
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Understanding your entity's IT environment is a component of the system of internal control which we must evaluate during risk assessment procedures in accordance with ISA 315 (Revised), Identifying and Assessing Risks of Material Misstatement

The objective of understanding your IT environment is to identify potential risks arising from the use of IT, through identifying key IT applications and processes relevant to the audit. This information will then assist in identifying IT general controls (ITGCs) that address those risks and creating specific audit responses to address those risks, as applicable.

We follow the same process for your business cycles and identifying related control activities relevant to the audit.

The IT environment consists of the IT applications and supporting IT infrastructure, as well as the IT processes and personnel involved in those processes that an entity uses to support business operations and achieve business strategies.





# Our Approach

## IT Audit Scope and Methodology

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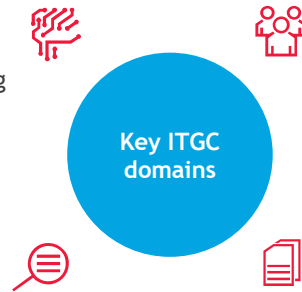
Based on our understanding of your IT control environment and key business cycles, we will perform procedures over the design and implementation (D&I) of your IT General Controls for the applications and underlying databases, considered to be in scope for the audit. This approach has been outlined below:

### Access management

- ▶ User access provisioning
- ▶ Excessive Access
- ▶ Generic accounts and Privilege access
- ▶ User access de-provisioning
- ▶ User access review

### Program changes

- ▶ Change evaluation
- ▶ Change authorization
- ▶ Existence of different environments
- ▶ Segregation of duties.

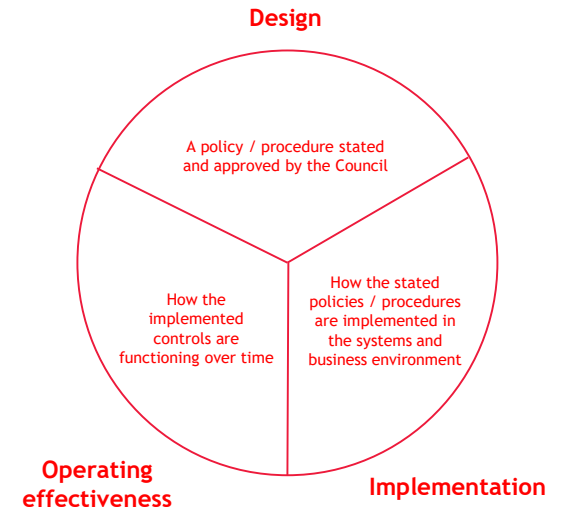


### Data processing management

- ▶ Completeness and accuracy of data movement
- ▶ Modification of schedules and jobs
- ▶ Exception handling workflow in case of job/interface failure

### Program development

- ▶ - Governance over system change, including evaluation of design and testing of controls in the new environment
- ▶ Data migration



Based on our initial understanding of your IT environment, we consider the following applications likely to be in scope for the audit, however we may revise the scope of our work as we proceed further through the planning and execution phases of the audit.

| Application in scope | Underlying Database  | Business function   |
|----------------------|----------------------|---|
| Oracle               | Oracle               | General ledger, accounts receivable, accounts payable and payroll |
| Mosaic               | Microsoft SQL Server | Social care case management system                                |
| Capita Pay 360       | Microsoft SQL Server | Payments and receipts   |
| MRI                  | Microsoft SQL Server | Asset and lease register  |
| A4W                  | Microsoft SQL Server | Management of social care income and expenditure                  |



# IT Audit Approach

## Audit Data Analytics [ADA]

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### Overview

Our bespoke data specialists transform data into a common format ready for analysis as well as run checks for completeness and accuracy of the data.

Analysis is carried out by way of specific data analytics tests (DATs) which are scoped based on the risk areas we have identified.

The result is a work book or a dashboard of aggregated, summarised data relating to the specific accounting cycle.

This allows us to easily access information and drill down as needed, which also allows for checking of anomalies and outliers.

The benefits of these tools are that they can perform a wide range of statistical and analytical procedures, the procedures performed can be logged to provide a clear audit trail of the analysis performed.

### How are we utilising ADA?

Following on from our understanding of business processes and data flows between applications over the payroll and financial reporting accounting cycle, we will use data analytics in order to provide assurance over the key business areas, by identifying trends and anomalies, transfers and transformation of data, and re-performance of key calculations.

The adjacent table illustrates the key areas in which we plan to use data analytics.

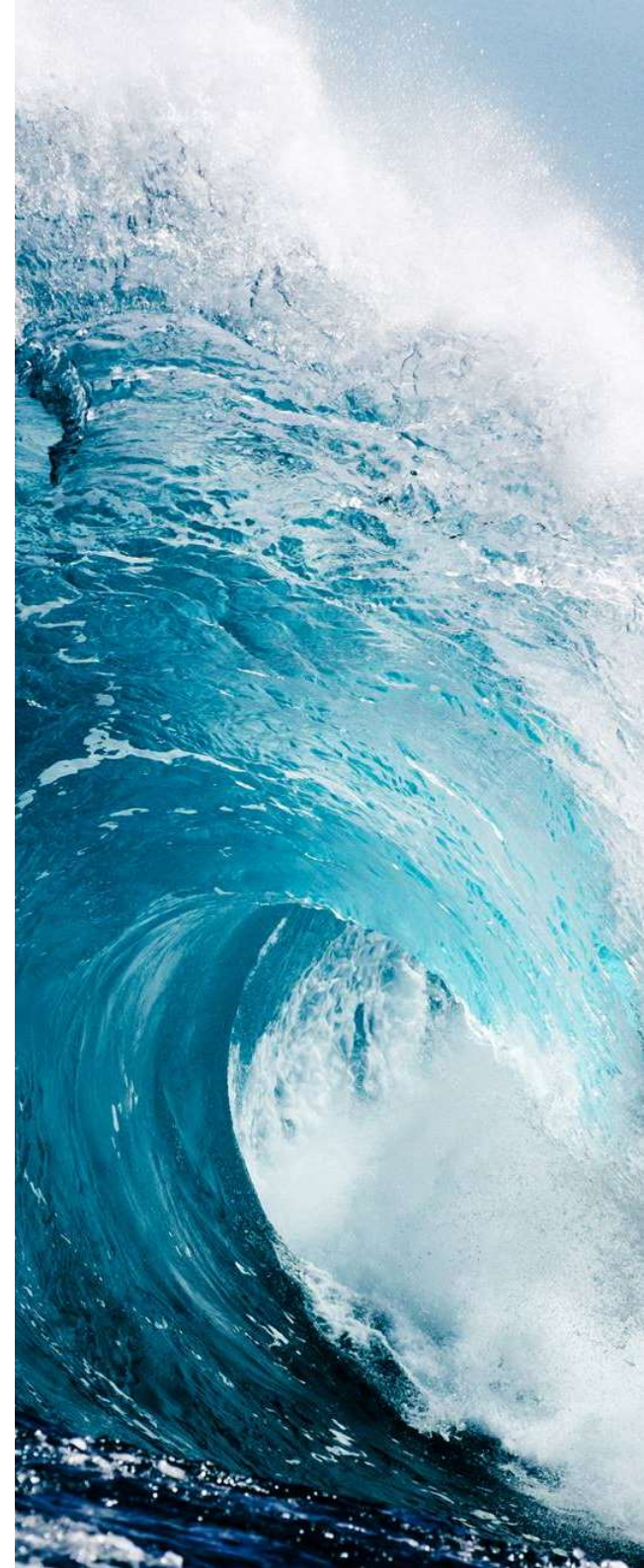
| Area            | Narrative   |
|-----------------|---|
| Payroll         | Reperformance of net pay calculation and reconciliation of gross to net pay. We will also identify any potential fraud indicators from unexpected transactions. |
| Journal testing | Identification and filtering of journals which fit our risk characteristics for further investigation.  |
| Risk assessment | Data analysis of financial statement area movements throughout the period to identify unusual movements and anomalies.  |





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# Identifying and assessing the risks of material misstatement

## ISA (UK) 315 (Revised)

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The standard introduces significant changes in approach to risk identification and assessment, which are intended to drive a more focused response from auditors to these identified risks. There are some implications for the way that we will carry out this period's audit:

- ▶ Our risk assessment procedures have been designed and performed in such a way to provide an appropriate basis to identify and assess the risks of material misstatement. Approaching risk assessment procedures in this way will facilitate targeted test design, focusing on the areas that really matter
- ▶ We have increased focus on understanding the IT environment and your system of internal control from initiation through to recording of transactions in the accounting records
- ▶ The way that we assess risk is enhanced to consider Inherent Risk of material misstatement and Control Risk separately
- ▶ A new stand-back requirement for material classes of transactions, balances and disclosures.

Two of the key benefits to these changes are:

- ▶ An ability to scale and flex our audit approach to the specific risks identified during the audit
- ▶ Clearer link between the risk and the resulting work performed, to ensure we target audit effort where it is needed.

### Effective Date

- ▶ The ISA is effective for audits of financial statements for periods beginning on or after 15 December 2021.

### How does this impact your audit?

- ▶ Risks will be assessed and categorised on a more granular basis using a broader spectrum of risk: Significant, Elevated, Normal and Low
- ▶ We expect to spend more time understanding the entity during planning to understand your control environment and associated risks in more detail
- ▶ Due to the different categorisation of risks our audit approach may change across various parts of the audit
- ▶ The combination of additional focus at planning and potential changes to audit approach may result in new or additional information requests and/or different phasing of audit procedures
- ▶ Audit fees will reflect our increased investment in complying with these new requirements
- ▶ As a product of this additional focus, we expect to deliver greater insight into your control environment and have a better understanding of our assessment of risks and what could go wrong in your financial reporting processes.





# Our Approach to Fraud

## Fraud risk assessment

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A thorough fraud risk assessment that drives a targeted audit strategy, together with robust audit assessment and responses to any fraud (material or immaterial) identified by management, those charged with governance or us as auditors are central to a high-quality audit. Accordingly, under our policies your audit will involve our Forensics Specialist Audit Support (“SAS”) team to support the audit team both during the risk assessment phase and in responding to any fraud or suspected fraud arising.

### About our Forensic SAS team

The Forensic SAS team is led by Steven Law, a partner who has over 25 years of audit and forensic accounting experience, together with significant experience providing forensic accounting support to audit teams in a wide variety of sectors. The core team is made up of highly experienced fraud investigators with external audit experience.

Forensic SAS provides a fraud-related synergy of resources that combine forensic accounting and forensic technology expertise with specialist corporate intelligence services, essential in assisting with fraud investigation activities.



### How we involve our Forensic SAS team at the audit planning stage

- ▶ Supporting management enquiries / discussions with the Audit, Governance and Standards Committee to understand issues around fraud (past and present) and the entities anti-fraud controls
- ▶ Reviewing the audited entity’s fraud risk assessment and fraud risk management programme as part of the fraud risk assessment
- ▶ Identifying internal and external fraud risks inherent to the organisation, utilising the fraud pentagon or fraud triangle as a tool
- ▶ Attending and participating in planning phase fraud risk assessment meetings and reviewing the outputs
- ▶ Reviewing and contributing to the development of the audit approach, audit plans and designing specific tests to detect material fraud
- ▶ Evaluating the impact of fraud or fraud risks in prior periods and how they are incorporated into the current year’s fraud risks and audit strategy
- ▶ Supporting the audit team with fraud-related queries relating to the audits.

**Why we do this** - involvement of forensic specialists brings additional insight and challenge, supporting a robust and wide ranging risk assessment and tailored audit response.

### How our Forensic SAS support the response to identified fraud

Where fraud, or suspicion of fraud, is identified we are required to demonstrate how we have evaluated and responded through our audit. This extends to assessment of immaterial frauds as they can be the ‘tip of the iceberg’ or indicate control deficiencies that require evaluation. Support includes:

- ▶ Acting as main resource to support audit teams with any fraud related matters encountered during the audit.
- ▶ Taking a lead role when fraud is detected or there is a suspicion of fraud, no matter the size or quantum, this could include the team:
  - Conducting interviews with management / Audit and Risk Committee
  - Assisting with developing the scope of the fraud investigation required and the selection of an independent investigator
  - Acting as shadow investigators throughout the investigation process
  - Assessing how the detection or suspicion of fraud impacts on the current audit and assist in designing and executing post- investigation audit procedures and risk assessment.
- ▶ Participating in and contributing to audit technical meetings around audit opinions concerning the impact of fraud / suspected fraud.

**Why we do this** - we involve our forensic specialists to support the response to fraud or suspected fraud to leverage their experience and skillset to support a high-quality audit that meets the requirements of ISA 240.



# Our Approach to Fraud

## Fraud enquiries

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### Fraud discussion and confirmation

As part of our audit, we request confirmation regarding the existence of any actual, alleged or suspected fraud in the period and a discussion on the anti-fraud controls and processes in place to ensure timely identification and action.

Engagement with you as those charged with governance on this area is a key element of our audit planning:

- It informs our own risk assessment conducted by the audit team, including support from Forensic SAS where applicable; and
- Where frauds have arisen, including immaterial frauds, it allows timely audit responses. The response to such frauds can be complex and time intensive so early identification is key.

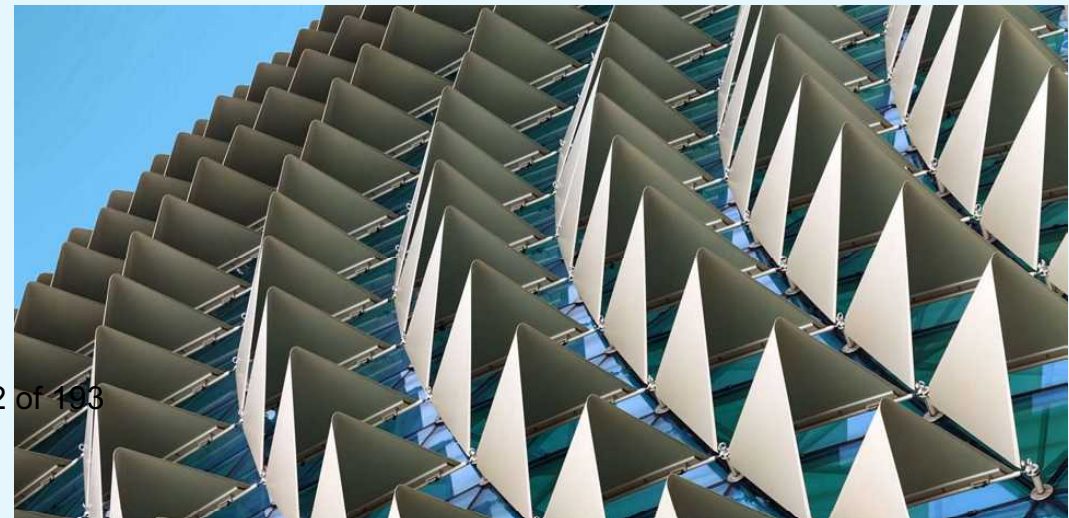


### KEY QUESTIONS FOR YOU

Have there been any frauds (actual, alleged, suspected) **irrespective of materiality** in the period?

What do you see as the fraud risks affecting the organisation? Refer to the Fraud Pentagon opposite which we will use as a tool for discussion.

How is fraud risk being managed within the organisation (including the use of a fraud response plan) and where do you see areas for improvement, if any?



# Council's responsibilities

## The Council's Responsibilities and Reporting

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### Financial reporting

The Council is expected to have effective governance arrangements to deliver its objectives. To this end, the publication of the financial statements is an essential means by which the Council accounts for its stewardship and use of the public money at its disposal.

The form and content of the Council's financial statements, and any additional schedules or returns for consolidation purposes, should reflect the requirements of the relevant accounting and reporting framework in place and any applicable accounting standards or other direction under the circumstances.

The Council is also required to prepare schedules or returns to facilitate the preparation of consolidated accounts such as HM Treasury's Whole of Government Accounts.

The Section 151 Officer is responsible for preparing and filing a Statement of Accounts and financial statements which show a true and fair view in accordance with CIPFA Code of Practice on Local Authority Accounting 2022/23, applicable accounting standards or other direction under the circumstances.

Our audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of materially accurate financial statements.

### Use of resources

Councils are required to maintain an effective system of internal control that supports the achievement of their policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at their disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a Governance Statement.

In preparing its Governance Statement, the Council will tailor the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on their arrangements for securing value for money from their use of resources.



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## Our responsibilities and reporting - financial reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your financial statements. We report our opinion on the financial statements to the members of the Council.

We read and consider the 'other information' contained in the Statement of Accounts such as the additional narrative reports. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

## Our responsibilities and reporting - use of resources

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

This means that we have regard to relevant guidance issued by the National Audit Office and undertake sufficient work to be able to satisfy ourselves as to whether the Council has put arrangements in place that support the achievement of value for money and to provide an annual commentary on arrangements in the Auditor's Annual Report.

## What we don't report

Our audit is not designed to identify all matters that may be relevant to the Council and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.



# Communication with you

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## Those Charged with Governance

References in this report to Those Charged With Governance (TCWG) are to the Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit, Governance and Standards Committee.

In communicating with the Audit, Governance and Standards Committee, representing TCWG of the Council and the Group, we consider TCWG of subsidiary entities to be informed about matters relevant to their subsidiary. Please let us know if this is not appropriate.

## Communication, Meetings and Feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered. We will meet with Management throughout the audit process. We will issue regular updates and drive the audit process with clear and timely communication with the Council, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

## Planning Report

The Planning Report sets out all planning matters which we want to draw to your attention including audit scope, our assessment of audit risks and materiality.

## Internal Controls

We will consider internal controls relevant to the preparation of financial statements in order to design our audit procedures and complete our work. This is not for the purpose of expressing an opinion on the effectiveness of internal control.

## Audit Completion Report

At the conclusion of the audit, we will issue an Audit Completion Report to communicate to you key audit findings before concluding our audit opinion. We will include any significant deficiencies in internal controls which we identify as a result of performing audit procedures. We will meet with you to discuss the findings and in particular to receive your input on areas of the financial statements involving significant estimates and judgements and critical accounting policies.

## Auditor's Annual Report

We will provide an annual commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. The commentary will explain the work that we have undertaken during the year and highlight any significant weaknesses identified, along with any recommendations for improvement. The commentary will also draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the Council. The Auditor's Annual Report is required to be published by the Council. At the time of drafting this Audit Planning Report the timetable for publication is not yet confirmed.

# Partner rotation

## Independence

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These tables indicate the latest rotation periods normally permitted under the independence rules of the FRC's Ethical Standard.

In order to safeguard audit quality we will employ a policy of gradual rotation covering the team members below as well as other senior members of the engagement team to ensure a certain level of continuity from year to year.

### Independence - engagement team rotation

| Senior team members                  | Number of years involved | Rotation to take place after |
|--------------------------------------|--------------------------|------------------------------|
| Ciaran McLaughlin<br>Engagement Lead | 2                        | 5 years                      |
| Barry Pryke<br>Senior Manager        | 5                        | 10 years                     |
| Wanda Khonjwayo<br>Audit Manager     | 1                        | 10 years                     |
| Steve Salisbury<br>IT Audit Partner  | 1                        | 10 years                     |

### Independence - audit quality control

| Role                                   | Number of years involved | Rotation to take place before |
|--|--------------------------|-------------------------------|
| Engagement Quality<br>Control Reviewer | 5                        | 10 years                      |



# Other information

## Audit requirements - other information in the Statement of Accounts

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As we note in the 'Overview - Audit Scope and Objectives' section, we have responsibilities in relation to other information (including statutory other information) in the Statement of Accounts.

### In order to allow us to fulfil these obligations we ask that the Council make available to us the following information:

|  |  |
|--|--|
| Other Information  | A final draft of the other information with relevant supporting documentation, sufficiently far in advance of the date on which the audit report is expected to be signed to give us adequate time to complete our work. |
| Information not directly derived from the financial statements or accounting records | For information not directly derived from the financial statements or otherwise from the accounting records of the Council and Group, details of the source of that information.   |
| Principal Risks - the Council's assessment of risks                                  | A copy of the risk register or equivalent together with details of the Council's consideration of risks including completeness of risks recorded in the register.  |
| Councils' assessment of going concern  | Details of key assumptions, consideration of sensitivity to reasonably possible variations in those assumptions and the Council's overall conclusions.   |

# Quality Assurance

## Our Quality Ethos

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### BDO's quality ethos: bringing audit quality to life

We take audit quality extremely seriously and embrace our responsibility for providing the highest quality assurance and acting in the public interest. Quality assurance is given the highest priority in the firm and is an integral part of the way we work.

All of our employees are bound by our quality assurance policies, which set out common standards for delivery of all our services. These are designed to ensure that your audit meets all applicable professional standards, regulatory requirements and that the firm issues reports that are appropriate in the circumstances.

### Where your highest audit quality comes from

- ▶ All members of the team are subject to external and internal Audit Quality Reviews
- ▶ Our team is supplemented with technical and audit quality specialists. We have a Quality and Risk Management team responsible for managing, reviewing and communicating on Quality Assurance policies, procedures, controls and reviews. We use these mechanisms to ensure that we manage internal and external work to a high standard.
- ▶ Our well-established quality control procedures and systems support compliance with relevant standards and regulations.

### Audit quality cornerstones

A key driver of audit quality is our focus on the component parts required to consistently achieve robust assurance.

We summarise below our four cornerstones of audit quality which underpin our audits:



# Our system of quality management

## ISQM (UK) 1 - Communication with you

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Over the last two years we have invested, and continue to invest, significantly in our people, training and systems to improve the consistency of the quality of our audits. BDO has a significant number of processes and procedures across the firm which manage audit quality. We set out a summary of the processes and procedures that support audit quality in our 2023 Transparency Report, which was published in October 2023 and is available on our website. Following a rigorous internal assessment we have concluded that, as designed, we have been unable to perform sufficient internal testing at this stage, in accordance with the requirements of ISQM (UK) 1, to conclude whether our system of quality management provides reasonable assurance that the objectives of our system of quality management are being achieved or not.

We are currently in the process of enhancing our risk assessment to ensure completeness of risk identification, and enhancing our corresponding processes and procedures to ensure they are designed, implemented and operating effectively to mitigate the risks. In addition, we are embedding controls in our processes and procedures to enable sufficient internal testing to be undertaken in accordance with the requirements of ISQM (UK) 1 which will allow us to conclude whether our system of quality management is operating effectively. While we continue to make progress in establishing a framework which meets the requirements of ISQM (UK) 1, we continue to rely on the significant processes and procedures that are set out in our 2023 Transparency Report. We expect to publish our conclusion on whether our system of quality management provides reasonable assurance that the objectives of our system of quality management are being achieved in our 2024 Transparency Report.

**For more information:**

Ciaran McLaughlin. Partner

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the Council and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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|   |                     |
|---|---------------------|
| <b>Report title:</b> 2022/23 Audit Planning Report for Essex Pension Fund   |                     |
| <b>Report to:</b> Audit, Governance and Standards Committee   |                     |
| <b>Report author:</b> Nicole Wood, Executive Director, Corporate Services   |                     |
| <b>Date of meeting:</b> 29 July 2024  | <b>For Approval</b> |
| <b>Enquiries to</b> Nicole Wood, Executive Director, Corporate Services <b>email</b> <a href="mailto:nicole.wood@essex.gov.uk">nicole.wood@essex.gov.uk</a> or Samantha Andrews, Investment Manager, Essex Pension Fund <b>email</b> <a href="mailto:Samantha.andrews@essex.gov.uk">Samantha.andrews@essex.gov.uk</a> |                     |
| <b>Divisions affected</b> All Essex   |                     |

**1. Executive Summary**

- 1.1 The purpose of this report is to present BDO's 2022/23 Audit Planning Report for the Essex Pension Fund, as appended.
- 1.2 A separate report on the agenda presents the External Auditor's Audit Planning Report for 2022/23 for Essex County Council. Much of the content in that report applies equally to the External Auditor's Audit Planning Report for 2022/23 for the Essex Pension Fund.

**2. Recommendations**

- 2.1 That the Committee notes the content of BDO's report.

**3. Background**

- 3.1 The financial statements of the Essex Pension Fund for the 2022/23 financial year are included in the Council's draft Statement of Accounts, which were released for external audit, and were published on the Council's website, on **31 May 2023**.
- 3.2 As explained in the separate agenda item on the Audit Planning Report for Essex County Council, work on the external audit for 2022/23 was significantly delayed. However, the External Auditor has been able to undertake their audit planning work, and so now presents their Audit Planning Report for the Essex Pension Fund for 2022/23 for the Committee's consideration.

#### **4. Audit Planning Report**

- 4.1 The Audit Planning Report explains how BDO intend to carry out their responsibilities as auditor of the Essex Pension Fund. Specifically, the report provides the Committee with a basis to review BDO's approach and scope for the 2022/23 audit.
- 4.2 The plan summarises BDO's assessment of the key risks driving the development of an effective audit for the Essex Pension Fund and outlines the planned audit strategy in response to those risks.
- 4.3 The scope of the audit is determined by the National Audit Office's Code of Audit Practice which sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014.
- 4.4 The plan also summarises BDO's proposed timelines for completion of their audit of the Essex Pension Fund.
- 4.5 BDO welcome the opportunity to discuss the plan with the Committee.

#### **5. Policy context and Outcomes Framework**

- 5.1 The Audit Planning Report explains the approach that BDO intends to take to provide their opinion on the financial statements of the Essex Pension Fund.

#### **6. Financial Implications**

- 6.1 The Audit Planning Report includes a summary of the proposed audit fees for the 2022/23 audit of the Essex Pension Fund, which amount to **£62,375**. The scale fees are set by Public Sector Auditor Appointments Ltd (PSAA), as the auditor appointing body, and any fee variations that are proposed by BDO will be subject to the PSAA's approval.

#### **7. Legal Implications**

- 7.1 The legal implications associated with this report are consistent with those noted in the separate report on the agenda related to the 2022/23 Audit Planning Report for Essex County Council.

## **8. Staffing and other resource implications**

- 8.1 The delayed and protracted nature of the external audit puts pressure on the Essex Pension Fund Team, but every effort continues to be made to respond promptly to audit requests and queries.

## **9. Equality and Diversity implications**

- 9.1 There are no equality and diversity implications associated with this report.

## **10. List of appendices**

- 10.1 Appendix 1 – 2022/23 Audit Planning Report for Essex Pension Fund.

## **11. List of Background Papers**

- 11.1 Previous related report to the Audit, Governance and Standards Committee:
- Draft Statement of Accounts and Annual Governance Statement 2022/23 (**5 June 2023 – AGS/19/23**).
  - Update on the 2021/22 and 2022/23 external audits of the Council and Essex Pension Fund (**25 March 2024 – AGS/14/24**).



# Essex Pension Fund

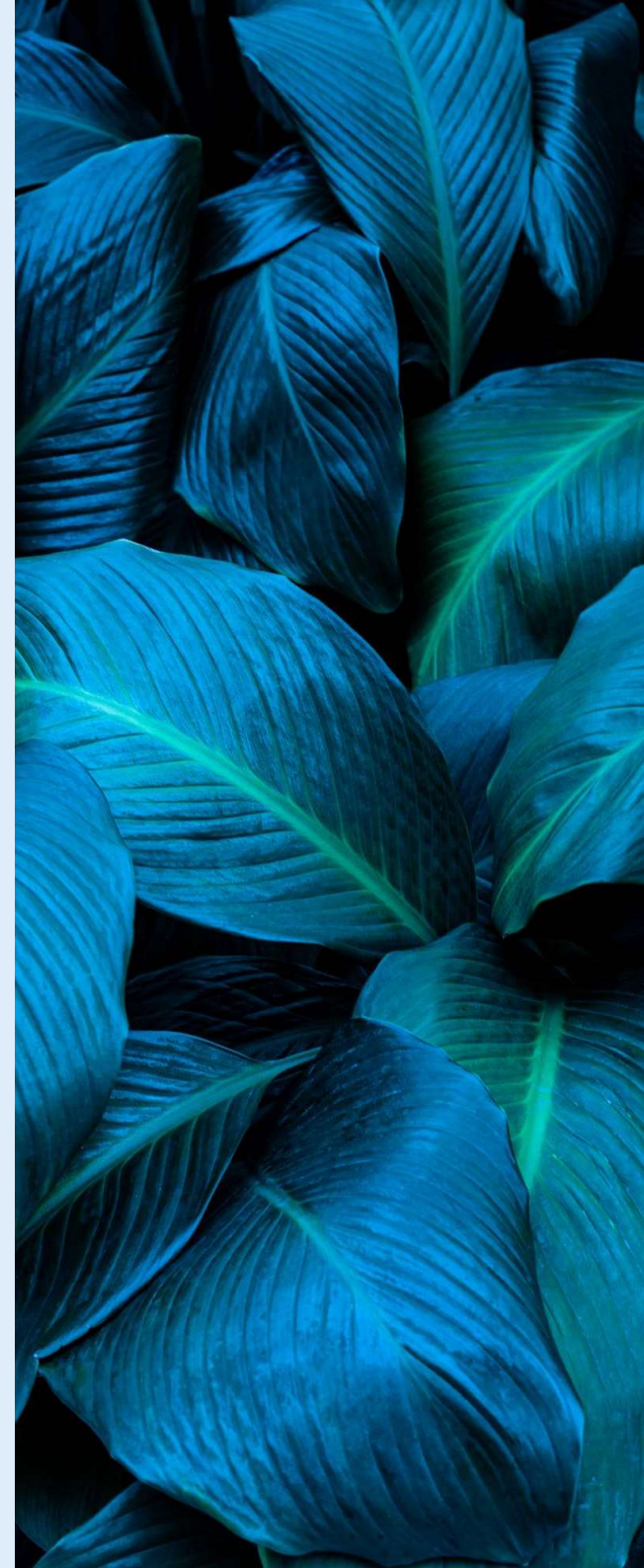
Audit Planning: year ending 31 March 2023

Report to the Audit, Governance and Standards Committee



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# Welcome

## Introduction

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We have pleasure in presenting our Audit Planning Report to the Audit, Governance & Standards Committee. This report forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process with those charged with governance.

It summarises the planned audit strategy for the year ended 31 March 2023, comprising materiality; key audit risks and the planned approach to these.

At the time of writing, our risk assessment procedures remain ongoing. Should any new audit risks not included in this planning report be identified or any significant changes made to existing risks, we will discuss these with management and communicate them to those charged with governance as soon as is practicable.

The planned audit strategy has been discussed with management to ensure that it incorporates developments in the Pension Fund during the year, the results for the year to date and other required scope changes.

This report contains matters which should properly be considered by the Council as a whole. We expect that the Audit, Governance & Standards Committee will refer such matters to the Council, together with any recommendations, as it considers appropriate.

We look forward to discussing this plan with you at the Audit, Governance & Standards Committee meeting on 29 July 2024 and to receiving your input on the scope and approach.

In the meantime if you would like to discuss any aspects in advance of the meeting please contact one of the team.

Ciaran McLaughlin, Partner

For and on behalf of **BDO LLP**, Appointed Auditor

2 July 2024



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# Overview

## Audit scope and objectives

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Key components of our audit objectives and strategy for the Pension Fund are highlighted and explained on the following pages.

We will communicate any significant changes to our audit strategy, should the need for such change arise.

Audit planning is a collaborative and continuous process and our audit strategy, as reflected here, will be reviewed and updated as our audit progresses.

| Reporting   | Objectives  |
|---|---|
| <b>Auditing standards</b>   | We will perform our audit in accordance with International Standards on Auditing UK (ISAs (UK)) and Practice Note 10 and any relevant guidance published by the National Audit Office.  |
| <b>Financial statements</b>   | We will express an opinion on the Pension Fund’s financial statements (which are included within the Council’s overall Statement of Accounts), prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting 2022/23 and other directions  |
| <b>Annual report</b>  | <p>In addition to our objectives regarding the financial statements, we will also:</p> <ul style="list-style-type: none"> <li>▶ Read and consider the ‘other information’ contained in the annual report such as the additional narrative reports. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.</li> <li>▶ For statutory other information we will form an opinion on whether the information given in the other information is consistent with the financial statements and our knowledge obtained in the audit and whether the reports have been prepared in accordance with applicable legal requirements.</li> </ul> |
| <b>Additional powers and duties</b>   | Where necessary we may be required to: issue of a report in the public interest; make a written recommendation to the Council; allow local electors to raise questions and objections on the accounts; or exercise legal powers to apply to the courts for a declaration that an item of account is contrary to law, issue an advisory notice or an application for a judicial review.  |
| <b>Audit report - fraud and other irregularities</b>                            | We will include an explanation setting out the capability of the audit to detect irregularity and our response to risks identified. An irregularity is defined as “Acts of omission or commission intentional or unintentional, committed by the entity, or by those charged with governance, by management or by other individuals working for or under the direction of the entity, which are contrary to the prevailing laws or regulations. Non-compliance does not include personal misconduct unrelated to the business activities of the entity.” (ISA (UK) 250A)  |
| <b>Audit Completion Report to the Audit, Governance and Standards Committee</b> | Prior to the approval of the financial statements, we will discuss our significant findings with the Audit, Governance & Standards Committee. We will highlight key accounting and audit issues as well as internal control findings and any other significant matters arising from the audit.  |

# Audit Scope and Materiality

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This summary provides an overview of the audit scope and materiality for the year ending 31 March 2023.

### Audit scope

The scope of the audit is determined by the National Audit Office’s Code of Audit Practice that sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. This includes auditing the financial statements and, where appropriate, exercising the auditor’s wider reporting powers and duties.

Our approach is designed to ensure we obtain the requisite level of assurance in accordance with applicable laws, appropriate standards and guidance issued by the National Audit Office.

ISA (UK) 315 (Revised) introduces significant changes in approach to risk identification and assessment, which are intended to drive a more focused response from auditors to identified risks. The introduction of this standard has a number of implications for the way that we will carry out this period’s audit. These are highlighted in further detail later in this report.

### Materiality

Planning materiality for the Pension Fund will be set at 1% of Net assets and is outlined in the chart on the right. The Fund Account specific materiality is based on 7.5% of gross expenses.

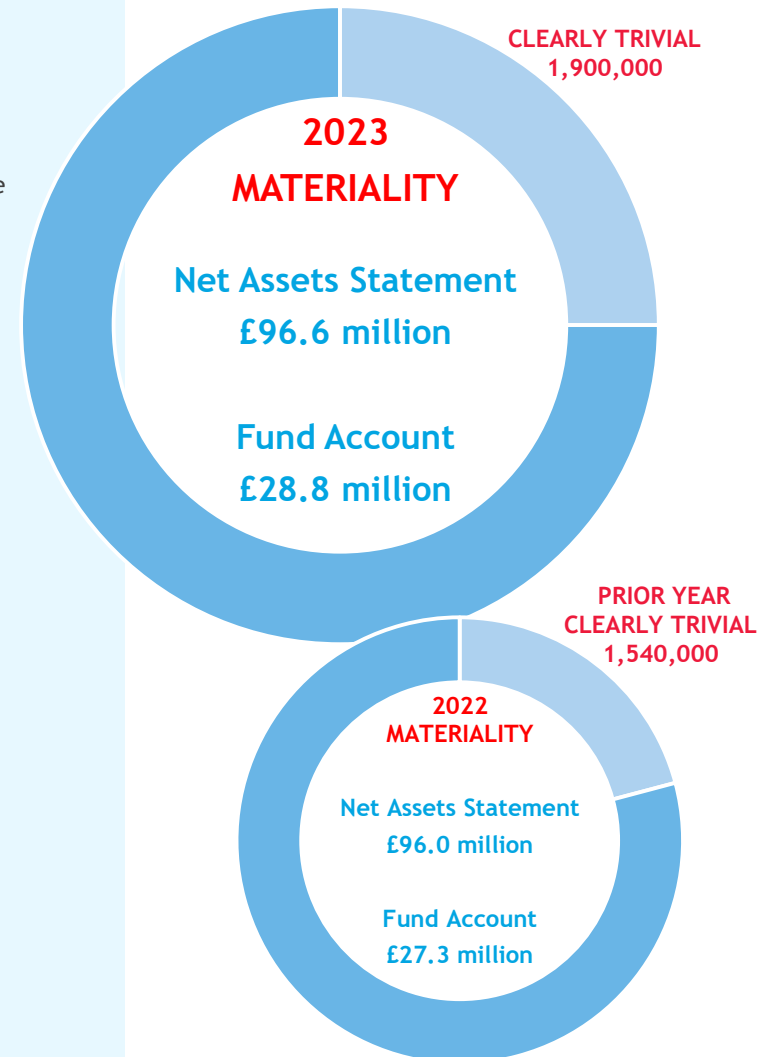
Although our materiality is the judgement of the audit partner, the Audit, Governance and Standards Committee is obliged to satisfy themselves that both the materiality approach being adopted by Management in relation to numerical and disclosure items and the materiality chosen by us is appropriate for the scope of the audit.

For reporting purposes, we consider misstatements of less than £1.900 million (2022: £1.540 million) to be trivial unless the misstatement is indicative of fraud.

### Responsibilities of the Executive Director, Corporate Services, and Essex County Council (“the Council”) as administering authority of the pension fund

The Section 151 Officer (Executive Director, Corporate Services), is responsible for the preparation of the Statement of Accounts, which comprises the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. For the year ending 31 March 2023, we are satisfied that the financial statements give a true and fair view.

Our audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of the financial statements.



# Independence and fees

## Executive summary

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### Independence

We confirm that the firm, and the engagement team conducting the audit comply with relevant ethical requirements including the Financial Reporting Council's (FRC's) Ethical Standard as appropriate and are independent of the Company.

There were no non-audit services provided by us to the Pension Fund during the period and up to the date of this Audit Planning Report.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence

### Audit fees

Audit fees are indicative and are based on our risk assessment at the planning stage of our audit. The increase in audit fees between 2022 and 2023 is driven by the introduction of ISA (UK) 315 (Revised). Further detail is provided in the appendices to this report.

We have also introduced further changes in our audit approach to enhance audit quality, in particular the involvement of Fraud and IT specialists in our work. Again, further details are included in the appendices to this report.

|   | Fees (£)              |                             |
|---|-----------------------|-----------------------------|
|   | 2022/23 (Proposed)    | 2021/22 (Proposed)          |
| Statutory audit: Code Scale fee   | <sup>(1)</sup> 24,075 | 24,075                      |
| Additional recurring audit fee: audit approach  | <sup>(2)</sup> 3,925  | 3,925                       |
| Additional audit fee: ISA315 additional work (see page 18 for further details)                                | <sup>(3)</sup> 16,700 | -                           |
| Additional audit fee: Fraud risk assessment (see pages 19 and 20 for further details)                         | <sup>(4)</sup> 3,300  | -                           |
| Additional recurring audit fee: IT environment and general controls (see pages 15 and 16 for further details) | 6,500                 | 6,500                       |
| Additional audit fee: Triennial valuation   | -                     | <sup>(5)</sup> 7,000        |
| Additional fee for IAS 19 assurance requests  | 7,875                 | 7,875                       |
| <b>Total proposed audit fees</b>  | <b>62,375</b>         | <b><sup>(6)</sup>49,375</b> |

### Fee variances

- (1) The Code fee quoted is the PSAA scale fee of £24,075
- (2) The audit fee relating to the audit approach reflects a recurring increase in the volume and detail of work in relation to financial statement areas involving significant judgements and assumptions.
- (3) This reflects the additional work required to meet the requirements of ISA 315 revised, which applies for the first time in 2022/23
- (4) This reflects enhancements made to our approach to fraud, including the use of our Forensics Specialist Audit Support team
- (5) This reflects the additional work we are required to perform on the data provided to the actuary for the purposes of the triennial valuation of the fund as at 31/3/22.
- (6) Our audit of the 2021/22 financial statements remains in progress at the date of this planning report. The fees shown are indicative and will be confirmed following completion of the 2021/22 audit.

# Overview of risks

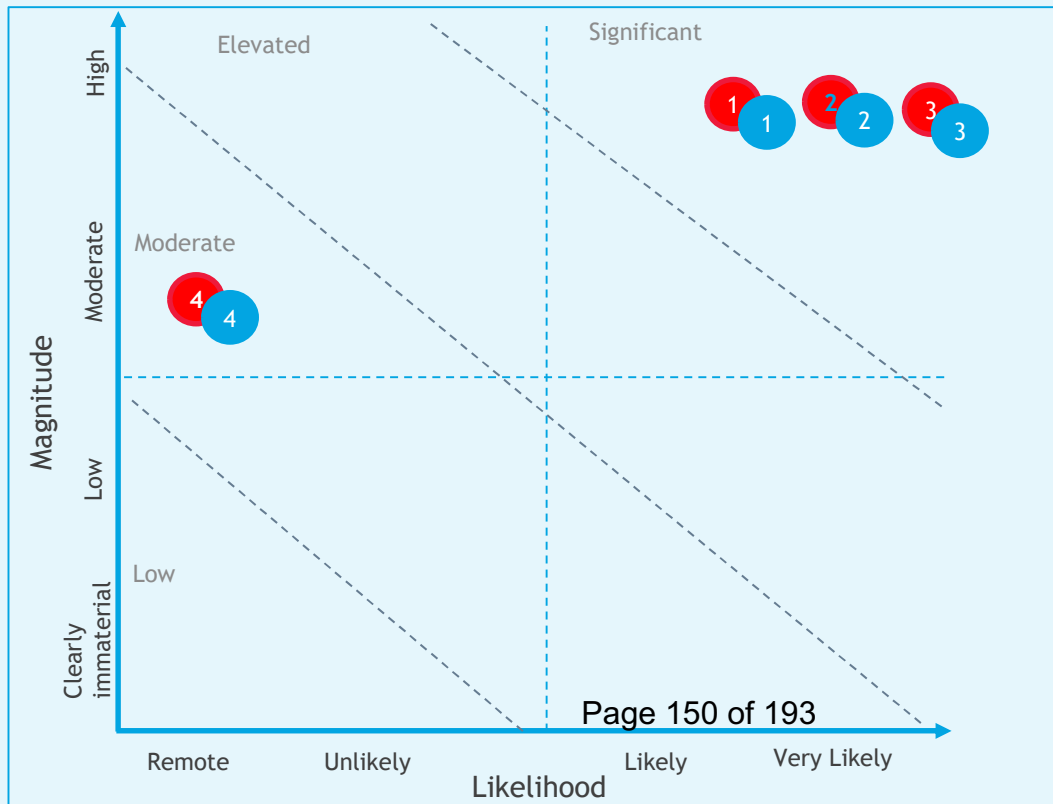
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Our Audit Strategy is built on a risk-based approach, so that audit work is focused on the areas of the financial statements where the risk of material misstatement is assessed to be higher.

We have discussed the changes to the business, systems and controls in the year with Management and obtained their view of potential business risk in order to update our understanding of the Pension Fund's activities and to determine which risks impact the financial statements. We will continue to update this assessment throughout the audit.

The graph below shows a summary of how we have categorised the identified risks.

Our risk assessment procedures remain ongoing at the time of writing. Should any new audit risks not included in this planning report be identified or any significant changes made to existing risks, we will discuss these with management and communicate them to those charged with governance



- 1 Management override
- 2 Valuation of investments (Unquoted and direct property investments)
- 3 Valuation of Pension Liability
- 4 Valuation of Investments (Pooled investments)

Auditing standards note that there is a presumed significant risk resulting from the intentional misstatement of revenue.

Most of the the Pension Fund's income is from contributions paid by members of the scheme and their employers. The nature of contributions (the value of which are underpinned by rates set by the actuary at each triennial valuation of the fund) is such that we can rebut the presumed risk.

Income from sources other than contributions is not material.

● Current year assessment
 ● Prior year assessment

# Risk 1

## Management override of controls

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|                     | C | E | A | V | P | 2023 | 2022 |
|---------------------|---|---|---|---|---|------|------|
| Management override | x | x | x | x | x | N/A  | N/A  |

### Risk detail

- ▶ Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. We are required to consider this as a significant risk of material misstatement due to fraud.

### Planned audit approach

- Our audit procedures will include the following:
- ▶ A review and verification of large and unusual journal entries made in the year, agreeing the journals to supporting documentation. We will determine key risk characteristics to filter the population of journals. We will use our IT audit specialists to assist with the journal extraction;
  - ▶ Evaluation of risks arising from automated journals
  - ▶ Evaluate findings from evaluation of design and implementation of IT general controls
  - ▶ A review of estimates and judgements applied by Management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
  - ▶ Review of unadjusted audit differences for indications of bias or deliberate misstatement.

|   |
|---|
| ● Significant risk                              |
| Elevated risk                                   |
| Moderate risk                                   |
| ● Fraud risk                                    |
| ● Related controls identified to mitigate risk  |
| ● Significant Management estimates & judgements |
| Controls testing approach                       |
| Data analytics testing approach                 |
| ● Substantive testing approach                  |



# Risk 2

## Valuation of investments (Unquoted and direct property investments)

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|                               | C | E | A | V | P | 2023             | 2022             |
|-------------------------------|---|---|---|---|---|------------------|------------------|
| <b>Change in Market Value</b> |   |   | x |   |   | £82.9 million    | £(828.6) million |
| <b>Investments</b>            |   |   |   | x |   | £9,629.5 million | £9,601.8 million |

### Risk detail

The investment portfolio includes unquoted private equity, debt, infrastructure and timberlands, which are valued by the fund managers. The Pension Fund also makes direct investments in freehold and leasehold properties which are based on valuations received from the fund managers. The valuation of these assets may be subject to a significant level of assumption and estimation, and valuations may not be based on observable market data. Due to significance of these valuations, even a small change in assumptions and estimates could have a material impact on the financial statements.

In some cases, the valuations are provided at dates that are not coterminous with the pension fund's year end and need to be updated to reflect cash transactions (additional contributions or distributions received) since the latest available valuations. Due to current market volatility the valuation received can quickly become outdated.

As a result, we consider there to be a significant risk that investments are not appropriately valued in the financial statements.

### Planned audit approach

Our audit procedures will include the following:

- ▶ Obtain direct confirmation of investment valuations from the fund managers and request copies of the audited financial statements (and member allocations) from the fund;
- ▶ Review the valuation completed by the fund manager and any significant assumptions made in the valuation;
- ▶ For property valuations, we will agree input data used by the valuer such as agreeing rental information to the underlying rental agreements, and will review the rental yields against the comparable data and indices for reasonableness;
- ▶ Where the financial statement date supporting the valuation is not coterminous with the pension fund's year end, confirm that appropriate adjustments have been made to the valuations in respect of additional contributions and distributions with the funds; and
- ▶ Ensure investments have been correctly valued in accordance with the relevant accounting policies.

|   |
|---|
| ● Significant risk                              |
| Elevated risk                                   |
| Moderate risk                                   |
| Fraud risk                                      |
| ● Related controls identified to mitigate risk  |
| ● Significant Management estimates & judgements |
| Controls testing approach                       |
| Data analytics testing approach                 |
| ● Substantive testing approach                  |





# Risk 3

## Pension Liability Assumptions

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|                    | C | E | A | V | P | 2023 | 2022 |
|--------------------|---|---|---|---|---|------|------|
| Pension Disclosure | x | x | x | x | x | N/A  | N/A  |

### Risk detail

An actuarial estimate of the pension fund liability to pay future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the Pension Fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.

The most recent actuarial valuation of the pension fund liability was carried out during the 2022/23 year to calculate the liability as at 31 March 2022. This involved the provision of membership and cash flow data from the pension fund to the actuary, data cleansing by the actuary and re-setting the financial and actuarial assumptions related to the valuation. The estimate of the pension fund liability at 31 March 2023 is based on a roll-forward of data from the 2022 triennial valuation, updated where necessary.

There is a risk the valuation disclosed in the notes to the Pension Fund accounts is not based on appropriate membership data (where there are any significant changes) or uses inappropriate assumptions to value the liability.

### Planned audit approach

Our audit procedures will include the following:

- ▶ Reviewing the controls in place to ensure that the data provided from the fund to the actuary is complete and accurate;
- ▶ Test a sample of transfers and cash flow data sent to the actuary for existence and accuracy;
- ▶ Reviewing the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. We will use the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions;
- ▶ Check whether any significant changes in membership data have been communicated to the actuary; and
- ▶ Agreeing the disclosure to the information provided by the actuary.

|   |
|---|
| ● Significant risk                              |
| Elevated risk                                   |
| Moderate risk                                   |
| Fraud risk                                      |
| ● Related controls identified to mitigate risk  |
| ● Significant Management estimates & judgements |
| Controls testing approach                       |
| Data analytics testing approach                 |
| ● Substantive testing approach                  |



# Risk 4

## Valuation of investments (Pooled investments)

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|                        | C | E | A | V | P | 2023             | 2023             |
|------------------------|---|---|---|---|---|------------------|------------------|
| Change in Market Value |   |   | x |   |   | £(187.8) million | £(356.9) million |
| Investments            |   |   |   | x |   | £6,736.2 million | £6,574.0 million |

### Risk detail

The fair value of funds (principally pooled investments) is provided by individual fund managers and reviewed by the Custodian (Northern Trust). These valuation are reported on a monthly/ quarterly basis although there may be amendments to the 'flash' valuations initially provided and subsequent final valuations that may be received after the draft accounts have been prepared.

There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements.

### Planned audit approach

Our audit procedures will include the following:

- ▶ Obtain direct confirmation of investment valuations from the fund managers including any subsequent final valuations to 'flash' valuations in the draft accounts;
- ▶ Ensure that investments have been correctly valued in accordance with the relevant accounting policies; and
- ▶ Obtain independent assurance reports over the controls operated by both the fund managers and custodian for valuations and existence of underlying investments in the funds.

|   |
|---|
| Significant risk                                |
| Elevated risk                                   |
| ● Moderate risk                                 |
| Fraud risk                                      |
| ● Related controls identified to mitigate risk  |
| ● Significant Management estimates & judgements |
| Controls testing approach                       |
| Data analytics testing approach                 |
| ● Substantive testing approach                  |



# Other matters requiring further discussion

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## Fraud

Whilst management have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit approach includes the consideration of fraud throughout the audit and includes making enquiries of Management and those charged with governance.

We have not been made aware of any actual, alleged or suspected incidents of fraud. We request confirmation from the Audit, Governance & Standards Committee on fraud and a discussion on the controls and processes in place to ensure timely identification and action.

## Accounting policies

We will report to you on significant qualitative aspects of your chosen accounting policies. We will consider the consistency and application of the policies and we will report to you where accounting policies are inconsistent with CIPFA Code of Practice on Local Authority Accounting 2022/23.

## Significant accounting estimates and judgements

We will report to you on significant accounting estimates and judgements.

We will seek to understand and perform audit procedures on accounting estimates and judgements including consideration of the outcome of historical judgements and estimates. We will report to you our consideration of whether Management estimates and judgements are within an acceptable range.

## Internal audit

We do not plan to review the audit work of the Company's internal audit function and anticipate that we will not be able to place reliance on their work in respect of their assessment of control processes.

## Financial statement disclosures

We will report to you on the sufficiency and content of your financial statement disclosures.

## Laws and regulations

We will consider compliance with laws and regulations. The key elements are:

- Local Government Superannuation Regulations 1974;
- Public Service Pensions Act 2013.

The Fund is administered in accordance with the following secondary legislation:

- Local Government Pension Scheme (LGPS) Regulations 2013 (as amended);
- LGPS (Transitional Provisions, Savings and Amendment) Regulation 2014 (as amended); and
- LGPS (Management and Investment of Funds) Regulations 2016.

We will make enquiries of management and review correspondence with the relevant authorities.

## Related parties

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for Management override or concealment or fraud. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of management.

## Contingencies

We will request input from the Audit, Governance & Standards Committee on any recent claims against the Pension Fund as part of our evaluation of the completeness of provisions and contingent liabilities in the financial statements.

## Any other matters

We will report to you on any other matters relevant to the overseeing of the financial reporting process. Where applicable this includes why we consider a significant accounting practice that is acceptable under the financial reporting framework not to be the most appropriate.

# Understanding your IT environment

## Overview

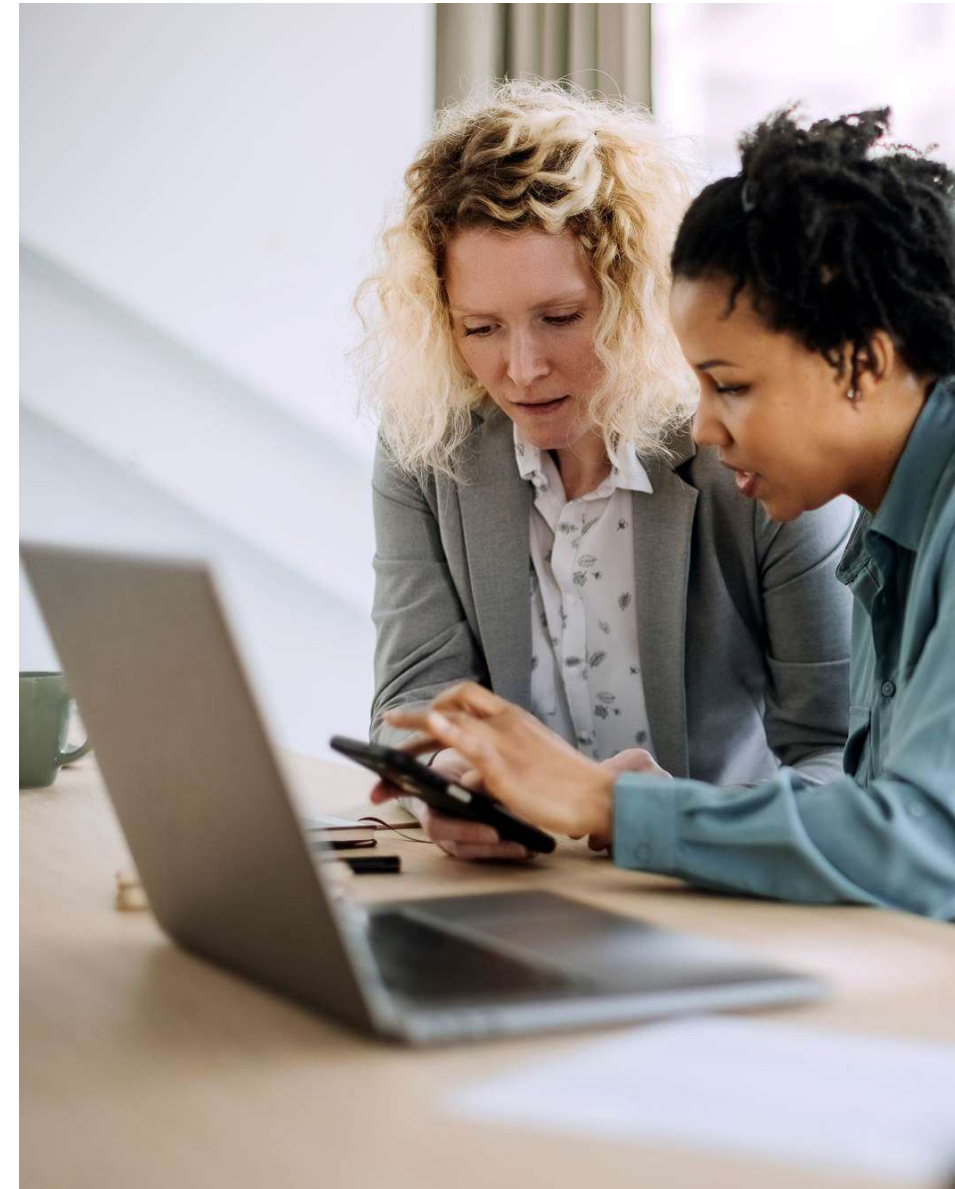
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Understanding your entity's IT environment is a component of the system of internal control which we must evaluate during risk assessment procedures in accordance with ISA 315 (Revised), Identifying and Assessing Risks of Material Misstatement

The objective of understanding your IT environment is to identify potential risks arising from the use of IT, through identifying key IT applications and processes relevant to the audit. This information will then assist in identifying IT general controls (ITGCs) that address those risks and creating specific audit responses to address those risks, as applicable.

We follow the same process for your business cycles and identifying related control activities relevant to the audit.

The IT environment consists of the IT applications and supporting IT infrastructure, as well as the IT processes and personnel involved in those processes that an entity uses to support business operations and achieve business strategies.



# Our Approach

## IT Audit Scope and Methodology

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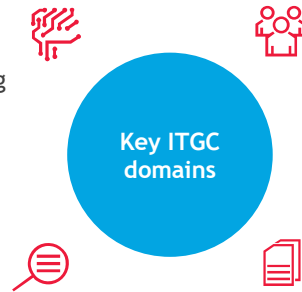
Based on our understanding of your IT control environment and key business cycles, we will perform procedures over the design and implementation (D&I) of your IT General Controls for the applications and underlying databases, considered to be in scope for the audit. The results of these procedures will determine whether we perform operating effectiveness testing over those ITGCs, with the intention of placing audit reliance upon those controls. This approach has been outlined below:

### Access management

- ▶ User access provisioning
- ▶ Excessive Access
- ▶ Generic accounts and Privilege access
- ▶ User access de-provisioning
- ▶ User access review

### Program changes

- ▶ Change evaluation
- ▶ Change authorization
- ▶ Existence of different environments
- ▶ Segregation of duties

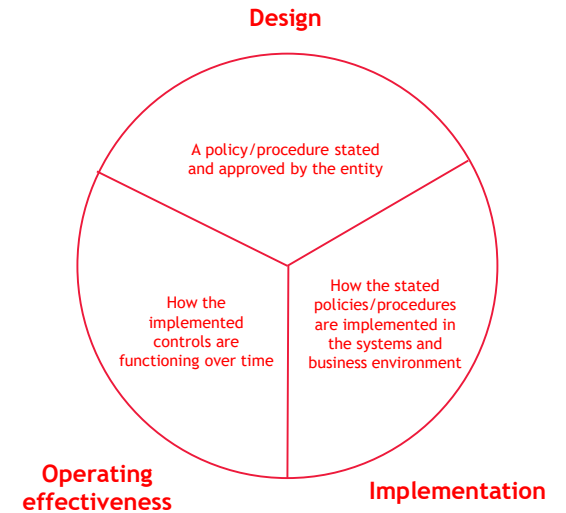


### Data processing management

- ▶ Completeness and accuracy of data movement
- ▶ Modification of schedules and jobs
- ▶ Exception handling workflow in case of job/interface failure

### Program development

- ▶ Governance over system change, including evaluation of design and testing of controls in the new environment
- ▶ Data migration



Based on our initial understanding of your IT environment, we consider the following applications likely to be in scope for the audit, however we may revise the scope of our work as we proceed further through the planning and execution phases of the audit.

| Application in scope | Underlying Database | Business function          | Brief Description |
|----------------------|---------------------|----------------------------|-------------------|
| UPM                  | N/A                 | Membership data & Pensions |                   |
| Oracle (Cloud based) | N/A                 | Main Financial system      |                   |

# IT Audit Approach

## Audit Data Analytics (ADA)

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### Overview

Our bespoke data specialists transform data into a common format ready for analysis as well as run checks for completeness and accuracy of the data.

Analysis is carried out by way of specific data analytics tests (DATs) which are scoped based on the risk areas we have identified.

The result is a workbook or a dashboard of aggregated, summarised data relating to the specific accounting cycle.

This allows us to easily access information and drill down as needed, which also allows for checking of anomalies and outliers.

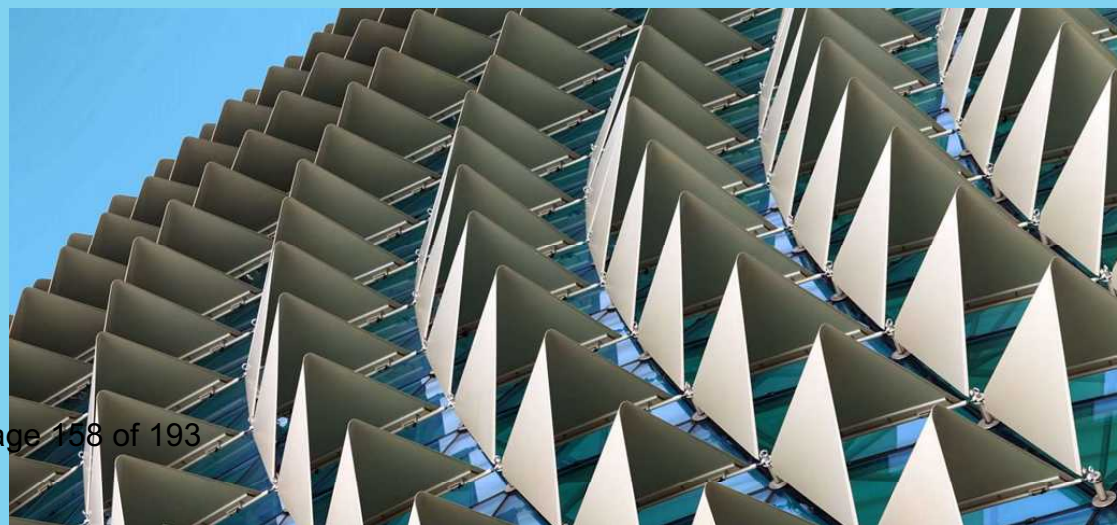
The benefits of these tools are that they can perform a wide range of statistical and analytical procedures, the procedures performed can be logged to provide a clear audit trail of the analysis performed.

### How are we utilising ADA?

We will use data analytics in order to provide assurance over the key business areas, by identifying trends and anomalies, transfers and transformation of data, and re-performance of key calculations.

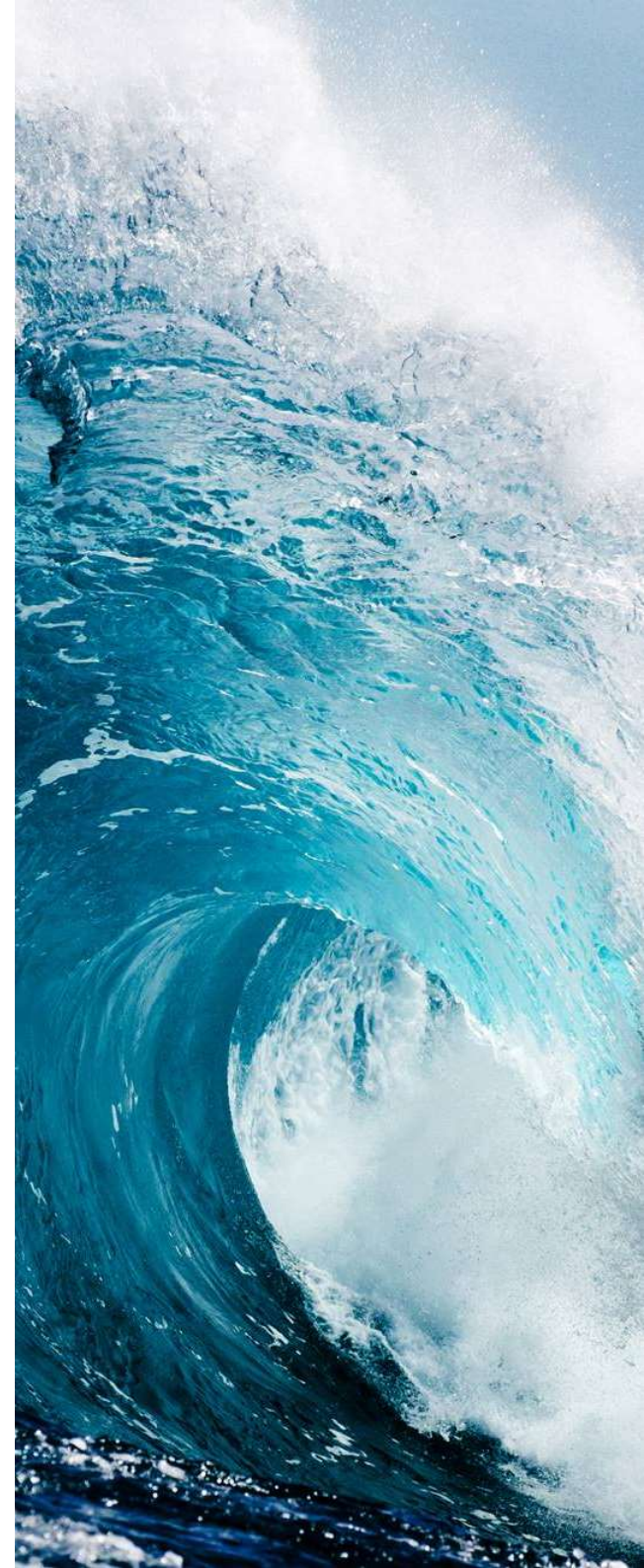
The table below illustrates the key areas in which data analytics will be used.

| Area             | Narrative  |
|------------------|--|
| Risk Assessment  | Data analysis of financial statement area movements throughout the period to identify unusual movements and anomalies. |
| Journals Testing | Identification and filtering of journals which fit our risk characteristics for further investigation.                 |



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# Identifying and assessing the risks of material misstatement

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The standard introduces significant changes in approach to risk identification and assessment, which are intended to drive a more focused response from auditors to these identified risks. There are some implications for the way that we will carry out this period's audit:

- ▶ Our risk assessment procedures have been designed and performed in such a way to provide an appropriate basis to identify and assess the risks of material misstatement. Approaching risk assessment procedures in this way will facilitate targeted test design, focusing on the areas that really matter
- ▶ We have increased focus on understanding the IT environment and your system of internal control from initiation through to recording of transactions in the accounting records
- ▶ The way that we assess risk is enhanced to consider Inherent Risk of material misstatement and Control Risk separately
- ▶ A new stand-back requirement for material classes of transactions, balances and disclosures.

Two of the key benefits to these changes are:

- ▶ An ability to scale and flex our audit approach to the specific risks identified during the audit
- ▶ Clearer link between the risk and the resulting work performed, to ensure we target audit effort where it is needed.

### Effective Date

- ▶ The ISA is effective for audits of financial statements for periods beginning on or after 15 December 2021.

### How does this impact your audit?

- ▶ Risks will be assessed and categorised on a more granular basis using a broader spectrum of risk: Significant, Elevated, Normal and Low
- ▶ We expect to spend more time understanding the entity during planning to understand your control environment and associated risks in more detail
- ▶ Due to the different categorisation of risks our audit approach may change across various parts of the audit
- ▶ The combination of additional focus at planning and potential changes to audit approach may result in new or additional information requests and/or different phasing of audit procedures
- ▶ Audit fees will reflect our increased investment in complying with these new requirements
- ▶ As a product of this additional focus, we expect to deliver greater insight into your control environment and have a better understanding of our assessment of risks and what could go wrong in your financial reporting processes.







# Our Approach to Fraud

## Fraud risk assessment

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A thorough fraud risk assessment that drives a targeted audit strategy, together with robust audit assessment and responses to any fraud (material or immaterial) identified by management, those charged with governance or us as auditors are central to a high-quality audit. Accordingly, under our policies your audit will involve our Forensics Specialist Audit Support (“SAS”) team to support the audit team both during the risk assessment phase and in responding to any fraud or suspected fraud arising.

### About our Forensic SAS team

The Forensic SAS team is led by Steven Law, a partner who has over 25 years of audit and forensic accounting experience, together with significant experience providing forensic accounting support to audit teams in a wide variety of sectors. The core team is made up of highly experienced fraud investigators with external audit experience.

Forensic SAS provides a fraud-related synergy of resources that combine forensic accounting and forensic technology expertise with specialist corporate intelligence services, essential in assisting with fraud investigation activities.



### How we involve our Forensic SAS team at the audit planning stage

- ▶ Supporting management enquiries / discussions with the Audit and Risk Committee to understand issues around fraud (past and present) and the entities anti-fraud controls
- ▶ Reviewing the audited entity’s fraud risk assessment and fraud risk management programme as part of the fraud risk assessment
- ▶ Identifying internal and external fraud risks inherent to the organisation, utilising the fraud pentagon or fraud triangle as a tool
- ▶ Attending and participating in planning phase fraud risk assessment meetings and reviewing the outputs
- ▶ Reviewing and contributing to the development of the audit approach, audit plans and designing specific tests to detect material fraud
- ▶ Evaluating the impact of fraud or fraud risks in prior periods and how they are incorporated into the current year’s fraud risks and audit strategy
- ▶ Supporting the audit team with fraud-related queries relating to the audits.

**Why we do this** - involvement of forensic specialists brings additional insight and challenge, supporting a robust and wide ranging risk assessment and tailored audit response.

### How our Forensic SAS support the response to identified fraud

Where fraud, or suspicion of fraud, is identified we are required to demonstrate how we have evaluated and responded through our audit. This extends to assessment of immaterial frauds as they can be the ‘tip of the iceberg’ or indicate control deficiencies that require evaluation. Support includes:

- ▶ Acting as main resource to support audit teams with any fraud related matters encountered during the audit.
- ▶ Taking a lead role when fraud is detected or there is a suspicion of fraud, no matter the size or quantum, this could include the team:
  - Conducting interviews with management / Audit and Risk Committee
  - Assisting with developing the scope of the fraud investigation required and the selection of an independent investigator
  - Acting as shadow investigators throughout the investigation process
  - Assessing how the detection or suspicion of fraud impacts on the current audit and assist in designing and executing post- investigation audit procedures and risk assessment.
- ▶ Participating in and contributing to audit technical meetings around audit opinions concerning the impact of fraud / suspected fraud.

**Why we do this** - we involve our forensic specialists to support the response to fraud or suspected fraud to leverage their experience and skillset to support a high-quality audit that meets the requirements of ISA 240.



# Our Approach to Fraud

## Fraud enquiries

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### Fraud discussion and confirmation

As part of our audit, we request confirmation regarding the existence of any actual, alleged or suspected fraud in the period and a discussion on the anti-fraud controls and processes in place to ensure timely identification and action.

Engagement with you as those charged with governance on this area is a key element of our audit planning:

- It informs our own risk assessment conducted by the audit team, including support from Forensic SAS where applicable; and
- Where frauds have arisen, including immaterial frauds, it allows timely audit responses. The response to such frauds can be complex and time intensive so early identification is key.

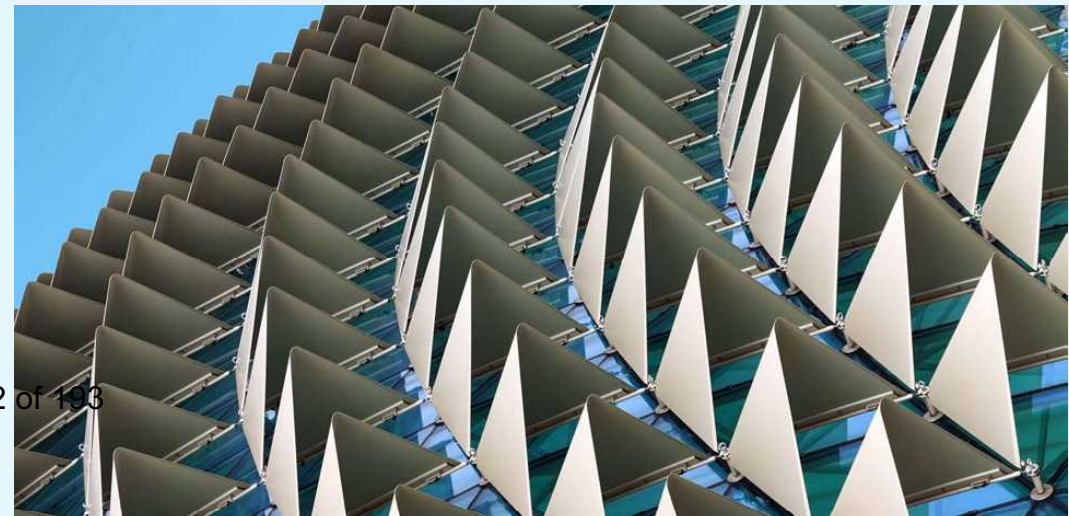


### KEY QUESTIONS FOR YOU

Have there been any frauds (actual, alleged, suspected) **irrespective of materiality** in the period?

What do you see as the fraud risks affecting the organisation? Refer to the Fraud Pentagon opposite which we will use as a tool for discussion.

How is fraud risk being managed within the organisation (including the use of a fraud response plan) and where do you see areas for improvement, if any?



# Council's responsibilities

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### Financial reporting

The Council, in its capacity as Administering Authority of Essex Pension Fund, is expected to have effective governance arrangements to deliver its objectives. To this end, the publication of the financial statements (including those of the Pension Fund) is an essential means by which the Council accounts for its stewardship and use of the public money at its disposal.

The form and content of the Council's financial statements, and any additional schedules or returns for consolidation purposes, should reflect the requirements of the relevant accounting and reporting framework in place and any applicable accounting standards or other direction under the circumstances.

The Council is also required to prepare schedules or returns to facilitate the preparation of consolidated accounts such as HM Treasury's Whole of Government Accounts.

The Section 151 Officer is responsible for preparing and filing a Statement of Accounts and financial statements which show a true and fair view in accordance with CIPFA Code of Practice on Local Authority Accounting 2022/23, applicable accounting standards or other direction under the circumstances.

Our audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of materially accurate financial statements.



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## Our responsibilities and reporting - financial reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your financial statements. We report our opinion on the financial statements to the members of the Council.

We read and consider the 'other information' contained in the Statement of Accounts and the Pension Fund's Annual report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

## What we don't report

Our audit is not designed to identify all matters that may be relevant to the Council and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.



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## Those Charged with Governance

References in this report to those charged with governance (TCWG) are to the Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit, Governance & Standards Committee.

## Communication, Meetings and Feedback

We request feedback from you on our planning and completion report to promote two-way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered. We will meet with Management throughout the audit process. We will issue regular updates and drive the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

## Planning Report

The Planning Report sets out all planning matters which we want to draw to your attention including audit scope, our assessment of audit risks and materiality.

## Internal Controls

We will consider internal controls relevant to the preparation of financial statements in order to design our audit procedures and complete our work. This is not for the purpose of expressing an opinion on the effectiveness of internal control.

## Audit Completion Report

At the conclusion of the audit, we will issue an Audit Completion Report to communicate to you key audit findings before concluding our audit opinion. We will include any significant deficiencies in internal controls which we identify as a result of performing audit procedures. We will meet with you to discuss the findings and in particular to receive your input on areas of the financial statements involving significant estimates and judgements and critical accounting policies.

Once we have discussed the contents of the Audit Completion Report with you and having resolved all outstanding matters we will issue a final version of the Report signed and dated prior to issue of the Audit Opinion.

# Other information

## Audit requirements - other information in the annual report

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As we noted in the 'Overview - Audit Scope and Objectives' section, we have responsibilities in relation to going concern and the other information (including statutory other information) in the annual report.

**In order to allow us to fulfil these obligations we ask that you please make available to us the following information as soon as is practicable:**

|  |  |
|--|--|
| Other Information  | A final draft of the other information with relevant supporting documentation, sufficiently far in advance of the date on which the audit report is expected to be signed to give us adequate time to complete our work.   |
| Information not directly derived from the financial statements or accounting records | For information not directly derived from the financial statements or otherwise from the accounting records of the Pension Fund, details of the source of that information.  |
| Principal Risks - the Pension Fund's assessment of risks                             | A copy of the risk register or equivalent together with details of members of the Pension Fund's consideration of risks including completeness of risks recorded in the register.  |
| The Pension Fund's assessment of going concern                                       | Detailed cash flow forecasts covering a period of at least 12 months from the date of approval of the financial statements, together with details of key assumptions, consideration of sensitivity to reasonably possible business risks and variations in those assumptions and the Pension Fund's overall conclusions. |

# Quality Assurance

## Our Quality Ethos

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### BDO's quality ethos: bringing audit quality to life

We take audit quality extremely seriously and embrace our responsibility for providing the highest quality assurance and acting in the public interest. Quality assurance is given the highest priority in the firm and is an integral part of the way we work.

All of our employees are bound by our quality assurance policies, which set out common standards for delivery of all our services. These are designed to ensure that your audit meets all applicable professional standards, regulatory requirements and that the firm issues reports that are appropriate in the circumstances.

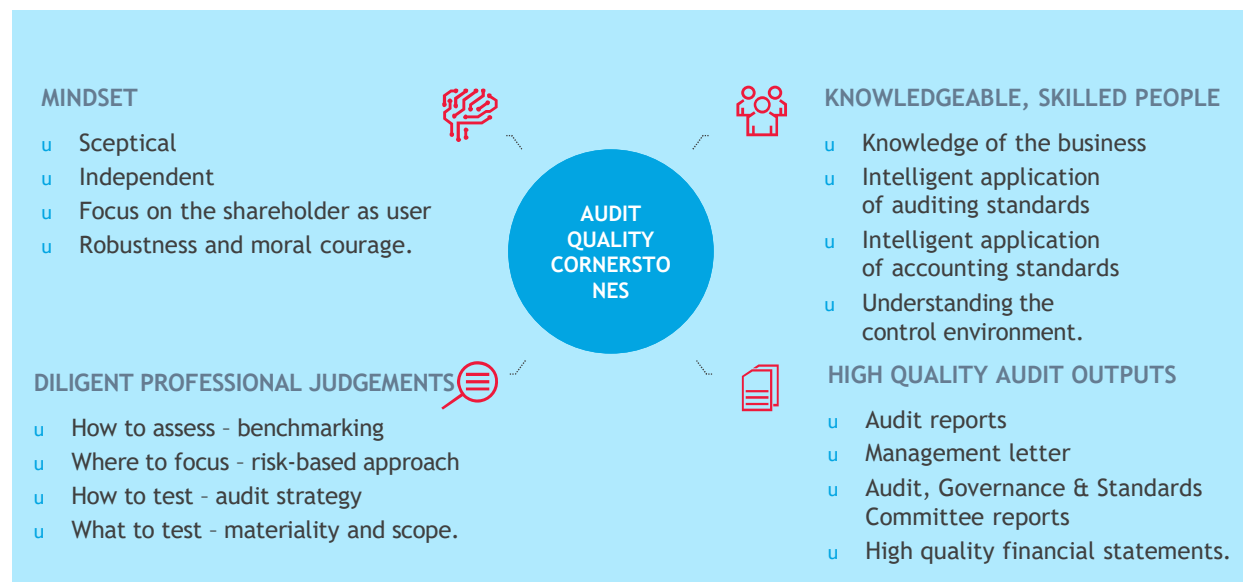
### Where your highest audit quality comes from

- ▶ All members of the team are subject to external and internal Audit Quality Reviews
- ▶ Our team is supplemented with technical and audit quality specialists. We have a Quality and Risk Management team responsible for managing, reviewing and communicating on Quality Assurance policies, procedures, controls and reviews. We use these mechanisms to ensure that we manage internal and external work to a high standard.
- ▶ Our well-established quality control procedures and systems support compliance with relevant standards and regulations.

### Audit quality cornerstones

A key driver of audit quality is our focus on the component parts required to consistently achieve robust assurance.

We summarise below our four cornerstones of audit quality which underpin our audits:



# Our system of quality management

## ISQM (UK) 1 - Communication with you

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Over the last two years we have invested, and continue to invest, significantly in our people, training and systems to improve the consistency of the quality of our audits. BDO has a significant number of processes and procedures across the firm which manage audit quality. We set out a summary of the processes and procedures that support audit quality in our 2023 Transparency Report, which was published in October 2023 and is available on our website. Following a rigorous internal assessment we have concluded that, as designed, we have been unable to perform sufficient internal testing at this stage, in accordance with the requirements of ISQM (UK) 1, to conclude whether our system of quality management provides reasonable assurance that the objectives of our system of quality management are being achieved or not.

We are currently in the process of enhancing our risk assessment to ensure completeness of risk identification, and enhancing our corresponding processes and procedures to ensure they are designed, implemented and operating effectively to mitigate the risks. In addition, we are embedding controls in our processes and procedures to enable sufficient internal testing to be undertaken in accordance with the requirements of ISQM (UK) 1 which will allow us to conclude whether our system of quality management is operating effectively. While we continue to make progress in establishing a framework which meets the requirements of ISQM (UK) 1, we continue to rely on the significant processes and procedures that are set out in our 2023 Transparency Report. We expect to publish our conclusion on whether our system of quality management provides reasonable assurance that the objectives of our system of quality management are being achieved in our 2024 Transparency Report.



**For more information:**

Ciaran McLaughlin

e: [ciaran.mclaughlin@bdo.co.uk](mailto:ciaran.mclaughlin@bdo.co.uk)

m: +441473944736

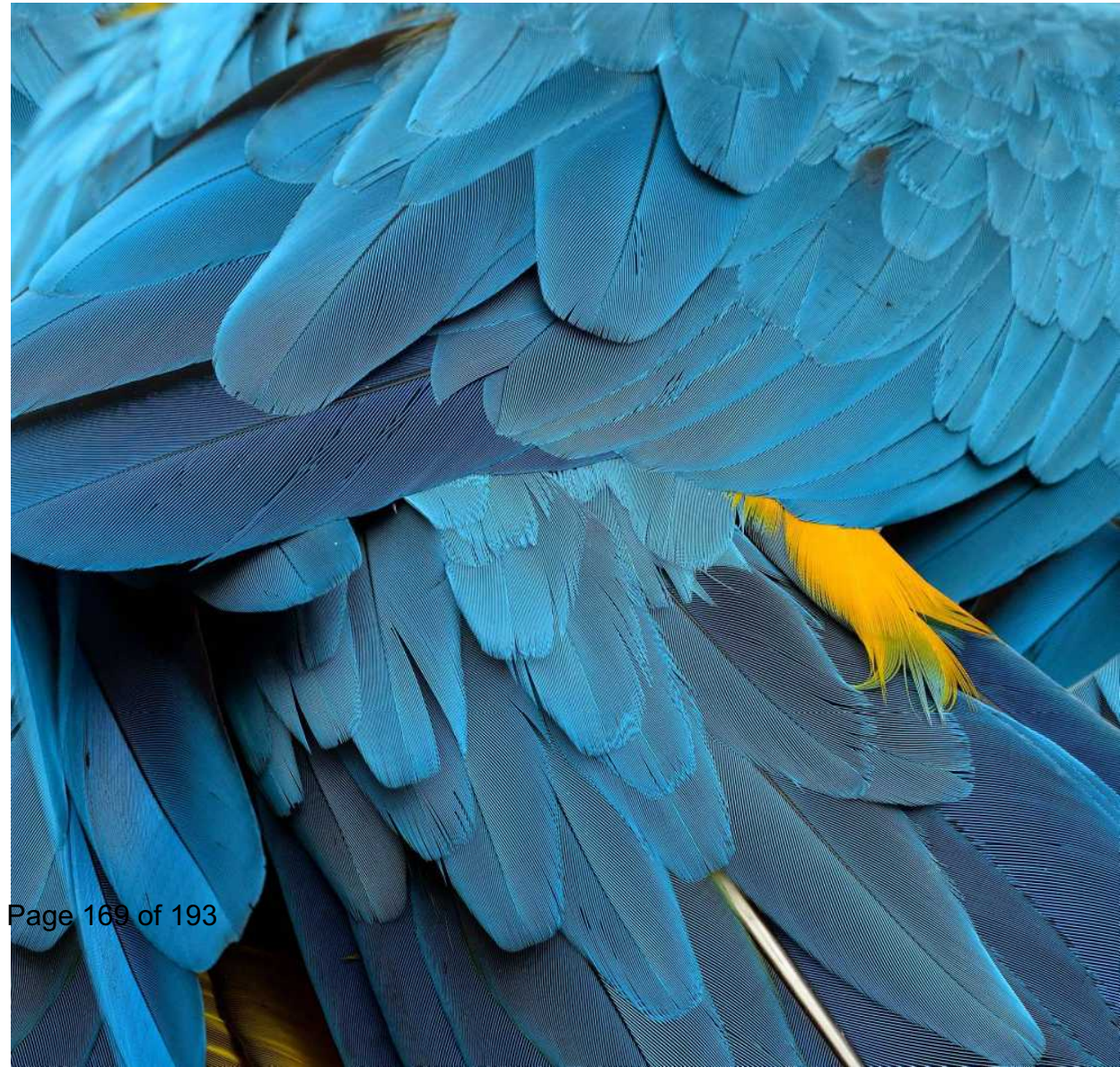
The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the Pension Fund and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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|   |                        |
|---|------------------------|
| <b>Report title:</b> Recruitment of the Independent Member appointed to the Audit, Governance and Standards Committee and of Independent Persons to consider complaints received under the Members Code of Conduct. |                        |
| <b>Report to:</b> Audit, Governance and Standards Committee   |                        |
| <b>Report author:</b> Paul Turner, Director Legal and Assurance   |                        |
| <b>Date:</b> 29 July 2024   | <b>For:</b> Discussion |
| <b>Enquiries to:</b> <a href="mailto:paul.turner@essex.gov.uk">paul.turner@essex.gov.uk</a> or <a href="mailto:sophie.crane@essex.gov.uk">sophie.crane@essex.gov.uk</a>   |                        |
| <b>County Divisions affected:</b> 'All Essex'   |                        |

## 1. Executive Summary

- 1.1 This report asks members to agree the process for recruitment of the Independent Member appointed to the Audit, Governance and Standards Committee, as the four year term of the current appointee comes to an end in November 2024. Additionally, members are asked to agree to the recruitment process for the Independent Persons to consider complaints received under the Members Code of Conduct.

## 2. Recommendations

- 2.1 Agree to hold a recruitment for statutory independent persons and for an independent member of the Audit Governance and Standards Committee.
- 2.2 Recommend to full Council an annual allowance of £750 be paid for the new recruits.
- 2.3 Confirm that the existing postholders are welcome to apply for a further term of office should they so wish.
- 2.4 Agree that the Panel should comprise of:
- The Chairman of the Committee
  - A Vice Chairman of the Committee
  - A nominee by the Leader of the largest opposition group, but if they decline to make an appointment then a nominee of the Leader of the second largest opposition group and if they decline to make an appointment then a nominee of the Leader of the third largest opposition group.

### **3. Summary of issue**

#### **Independent Member appointed to the Audit, Governance and Standards Committee**

- 3.1 At its meeting on 14 July 2020, Full Council agreed to the appointment of a Co-opted Independent Member of the Audit Governance and Standards Committee, in line with best practice. It was agreed that the co-opted Member would be appointed the committee for a term of not exceeding four years and shall be selected by the Committee following public advertisement. At the expiry of the term of appointment the vacancy shall be advertised and a further selection process undertaken. The sitting member shall be eligible for reappointment.
- 3.2 Following a recruitment campaign, written application process and interview Panel Mr Atta UI Haque was appointed as an Independent Member of the Audit, Governance and Standards Committee from 16 November 2020 for a term of four years. The role currently is unpaid, although Mr UI Haque is able to claim expenses.
- 3.4 The introduction of an Independent Member has been of significant benefit to the committee. Mr UI Haque's term of office will end on 15 November 2024 and Council's instructions are clear that the vacancy must be advertised and Mr UI Haque will need to apply if he wishes to serve a further term.
- 3.5 At the time when Mr UI Haque was appointed most local authorities did not have independent co-opted members on their audit committee. Since then the Redmond Report has recommended that all committees have such persons. Thus there is more competition for candidates and most audit committees appear to be paying a small allowance their independent members.
- 3.6 It is important that we can attract a suitably qualified candidate and the Council was fortunate to be able to attract the services of Mr UI Haque without paying an allowance.
- 3.7 Given the change in the landscape it is proposed that the Council should pay an allowance to its independent co-opted member of the Audit Governance and Standards Committee.
- 3.8 In the interests of equity it is suggested that this allowance is the same as paid to the Independent Persons (see para 3.5 below). Should the Committee consider this suggestion to be acceptable, this change to the current remuneration arrangements will then need to be recommended to Full Council.

#### **Independent Persons to consider complaints received under the Members Code of Conduct**

- 3.9 The Localism Act 2011 requires the Council to have at least one independent person. Independent persons cannot be officers or members and cannot have a recent connection to the council. They are involved in a number of ways:

- \* The Monitoring Officer consults them under our process before deciding not to investigate it.
- \* If a complaint is investigated then they advise on the complaint and express an opinion.
- \* Members may get advice from an Independent person in certain circumstances
- \* The Council may not dismiss the Chief Executive, Section 151 Officer or Monitoring Officer without first considering the view of an advisory committee which includes at least two independent persons as members.

3.10 The Committee on Standards in Public Life issued a report which recommended that the Government legislates on the length of time that independent members can serve. The Government took some considerable time to consider this recommendation and ultimately rejected this recommendation in 2022. It is possible that the new government will legislate on this, but it is unlikely to be at the top of the Government's list of things to tackle.

3.11 Our two independent members have been in place since 2012. In some authorities they would have dealt with a large number of cases in twelve years. However, since we typically have fewer than five complaints a year and we have two independent persons, in practice they have had fewer cases to consider over twelve years than those at some authorities may have seen in two years. Some district councils with a large number of parish councillors receive a large number of complaints.

3.12 The independent persons receive an allowance of £500 per annum which was increased to £550 in 2023.

3.13 At its meeting of 10 June 2024 Members were informed about these arrangements and suggested that this was reviewed over the next year.

3.14 Whilst there is no pressing need to re-recruit independent persons, the fact that we are arranging recruitment for the independent co-opted member of Audit, Governance and Standards Committee would make it administratively convenient to do so.

### **Recruitment**

3.15 It is proposed that both roles be advertised via a recruitment campaign, beginning in time for appointment at the next appropriate meeting, via the ECC website, LinkedIn and ECC's social media channels. Information packs will be sent to those persons expressing an interest in applying for the position and applicants will be requested to submit a supporting statement setting out how they met the criteria within the person specification, and their curriculum vitae.

3.16 It is proposed that a recruitment panel will be convened to interview suitable candidates online via Teams. The panel will consist of the Chairman and one Vice Chairman of the Committee and one opposition member. An officer will be on the panel in an advisory capacity to act as subject matter expert.

3.17 The Panel will make recommendations as to who should be appointed.

#### **4. Financial implications**

4.1 Any increase in costs related to Independent members and Independent persons remuneration would need to be funded from the Assurance budget.

#### **5. Legal implications**

5.1 The Audit Governance and Standards Committee is a key way in which the Council provides assurance that it is providing value for money and has proper systems of control. Without effective assurance Councillors will not know that the Council is effectively carrying out its statutory duties.

5.2 The Independent Member of the Committee provides additional expertise and is in line with current best practice, including the report by Tony Redmond.

5.3 It is a statutory requirement to have Independent Persons and the Committee on Standards in Public Life recommended legislation to say that they should not serve unlimited terms. The then Government rejected this proposal but it is open to the council to implement. Most other councils appoint for a fixed term.

#### **6. Equality and Diversity implications**

6.1 The Public Sector Equality Duty applies to the Council when it makes decisions. The duty requires us to have regard to the need to:

- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act. In summary, the Act makes discrimination etc. on the grounds of a protected characteristic unlawful
- (b) Advance equality of opportunity between people who share a protected characteristic and those who do not.
- (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.

6.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, marriage and civil partnership, race, religion or belief, gender, and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).

#### **7. List of appendices**

7.1 None

**8. List of Background papers**

- 8.1 AGS/86/20: Recruitment of an independent Member to the AGS Committee (16/11/2020)
- 8.2 SC/001/12: The Localism Act 2011 – The Amended Standards Regime (02/10/2012)

|   |                      |
|---|----------------------|
| <b>Report title: Social Media Issues: Part I (Public Report)</b>  |                      |
| <b>Report to:</b> Audit, Governance and Standards Committee   |                      |
| <b>Report author:</b> Gavin Jones, Chief Executive  |                      |
| <b>Date:</b> 29 July 2024   | <b>For:</b> Decision |
| <b>Enquiries to:</b> Gavin Jones, Chief Executive, email <a href="mailto:gavin.jones@essex.gov.uk">gavin.jones@essex.gov.uk</a> or Paul Turner, Director, Legal and Assurance, email <a href="mailto:paul.turner@essex.gov.uk">paul.turner@essex.gov.uk</a> |                      |
| <b>County Divisions affected:</b> All Essex   |                      |

## 1. Summary of report

- 1.1 This report has been written following the decision taken by Council to ask the Committee to investigate aspects of a number of payments to a number of individuals, companies and community interest companies following concerns raised on social media and by councillors.
- 1.2 This report asks the Committee to consider and approve the draft report to answer these questions.

## 2 Recommendation

- 2.1 The Committee adopts the report in the form at appendix 1.
- 2.2 That a copy of the report is sent to the Leader of the Council and published on the council's website.

## 3 Background

- 3.1 On 13 February 2024 Council passed the following resolution:

*'This Council, given the media interest and public disquiet and being ever mindful of the need to spend taxpayers money wisely, requests an urgent investigation by the Audit, Governance and Standards Committee into the circumstances in which Essex County Council engaged Mr Simon Harris in contracts and payments amounting to £493,000 to provide social media posts from June 2020 until April 2023. The Audit, Governance and Standards Committee to pay particular regard to the following:*

1. *By what selection process was Mr Harris initially awarded these contracts, who made the decision and what background checks were made given his reputation as a comedian and prankster?*
2. *What precisely were these contracts awarded for, who signed them off, what due diligence was carried out and what value for money was carried out before further contracts or payments were awarded?*

3. *Were declarations of interest correctly recorded by those directly authorising the payments?*
4. *Why wasn't the in house ECC Communications Team given the additional resource to carry out the work by Mr Harris given that it was for a corporate public health awareness messaging campaign?*
5. *What analysis of the viewing data is available, considering the average view of a typical Facebook page is three seconds, and in particular Mr Harris's Facebook coverage in Essex? The Committee should consider use of an Independent data analyst to be engaged as a witness to the committee to verify how meaningful published reach data is.*
6. *It has been reported that serious concerns were raised in 2021, why did payments continue until 2023?*
7. *What is the usual budget for social media and how much has been spent on social media since April 2023?*
8. *Does the Audit, Governance and Standards Committee consider this expenditure to be value for money, and if so, how?*
9. *The effectiveness of opposition member scrutiny of this expenditure?*
10. *What learning so far has been taken and what changes made or are being explored in procurement processes?*

*It is acknowledged that the above list is not exhaustive and therefore, the Audit, Governance and Standards Committee should ensure that a full and thorough examination is undertaken and allow any Member to bring any evidence or questions they have forward.*

*This Council therefore calls on the Audit, Governance and Standards Committee to report and publish the outcome of its investigation.'*

- 3.2 As a result a report was prepared which was considered by the committee on 15 April 2024. A report was prepared which sought to reflect what the committee was told and how it would answer the questions. The report at appendix 1 is the proposed final response which has been the subject of discussion and consultation with the committee.
- 3.3 It should be noted that the first payment to a person in scope was made on 1 January 2018 and the first payment to Mr Harris was made in on 1 July 2019, which is almost five years ago. Both the then Head of Strengthening Communities, who commissioned the work and her line manager, the Director of Public Health, left the Council's employment March 2022. We have found as many records as we could and we have sought clarification from people who remain in the council's employment, although those remaining were not responsible for decision making until the departure of the former Head of Strengthening Communities.
- 3.4 Although this report is principally expressed as dealing with payments made to Simon Harris, the answers generally apply to all the 'persons in scope', unless it's obvious that this doesn't apply – for example when the report refers to a specific payment. The 'persons in scope' are:
  - Simon Harris
  - Jon Morter
  - Emmy McCarthy



- Johnny Searle Consulting Limited
- Neel Mookherjee
- Rob Pilley
- Jake Searle
- Central Law CIC
- Better Divorce Course
- The Prince of Wales Pub in Stow Maries

3.5 It should be made clear, as has been done before, that the persons in scope were selected because of questions about them. The fact that someone is a person in scope suggests only that that the Council has received questions about them. It does not necessarily suggest that the Council (or anyone else) has made any criticism of that individual.

#### **4. The Recommendations in the Report**

4.1 The draft report makes a number of recommendations. Once the Committee finalises the report it will receive regular reports on the responses to and implementation of recommendations.

#### **5. Confidential Report**

5.1 There is a short separate confidential report which cannot be published for data protection and other legal reasons. There is one recommendation which is not referenced in the public report. That relates to recommendation relating to the training of senior leaders.

**Essex County Council**

**Audit, Governance and Standards Committee**

**DRAFT**

Report into questions asked by full Council in February 2024 concerning certain payments made by the Strengthening Communities Team between 2018 and 2023

## DRAFT REPORT DRAFT REPORT DRAFT REPORT

**This report has been written on the instructions of the Audit, Governance and Standards Committee.**

**In February 2024 the Council resolved to ask the Committee to carry out an 'investigation' and prepare a report expressing their answer to a number of questions.**

**This is the Committee's report in response to that request.**

### **Introduction and background**

In January 2024 the Council was the subject of attention on social media relating to payments made to external contractors by the Strengthening Communities Team. These payments were mainly for the amplification of corporate communication messages, but there were also some payments made for other things, such as onboarding volunteers who supported vaccination programme, payments for the community to access legal advice support from a community interest company set up by a Citizens Advice Bureau and payments to a local pub for supplying meals during the pandemic.

In late January 2024 the Council voluntarily published information on its website relating to the payments, including confirmation that there had been breaches of policy.

[Spending and Council Tax: Spending on digital community engagement in the pandemic | Essex County Council](#)

The Council received a number of requests for information from the public, media organisations and councillors and these have been answered as far as possible. Some information, particularly the Council's response to allegations of serious misconduct by officers, either could not be answered or could not be answered in public since, external legal advice confirmed that the Council could neither confirm nor deny these allegations and any response to them. One member of the committee has asked that this report states that he is not satisfied with this.

The Leader of the Council responded to this by making an Executive Statement at the Council meeting in February 2024 and a motion was passed asking this Committee to look into a number of questions.

The Leader made it clear that it was expected that the Committee would look at whatever it wished – a fact already confirmed by the Committee's own 'terms of reference' in the Council's Constitution. Accordingly, the Committee has also considered a number of matters which were not specifically asked in the resolution passed by the Council.

In particular, the resolution focused on payments made to Mr Simon Harris, but in answering the questions the Committee have considered all the payments which were published on the Council's website in January 2024.

## DRAFT REPORT DRAFT REPORT DRAFT REPORT

The Committee have not amended the questions asked by council but, depending on the context, they have always considered the questions with respect to all published payments or, at least with respect to all such payments to 'persons in scope' relating to the use of social media.

Although this report is principally expressed as dealing with payments made to Simon Harris, the answers generally apply to all the 'persons in scope', unless it's obvious that this doesn't apply – for example when the report refers to a specific payment. The 'persons in scope' are:

- Simon Harris
- Jon Morter
- Emmy McCarthy
- Johnny Searle Consulting Limited
- Neel Mookherjee
- Rob Pilley
- Jake Searle
- Central Law CIC
- Better Divorce Course
- The Prince of Wales Pub in Stow Maries

It should be made clear, as we have elsewhere, that the persons in scope were selected because of questions about them. The fact that someone is a person in scope suggests only that that the Council has received questions about them. It does not necessarily suggest that the Council (or anyone else) has made any criticism of that individual.

The Committee considered a report from Council officers on 15 April 2024 which sought to collate information available to the Council, including some information which had been obtained from Mr Harris at the request of Committee Members.

During that meeting the Committee asked a number of questions and for further information. This report has been informed by the report the Committee considered in April 2024 and by the further information they were given.

After the meeting new questions were raised by one member of the Committee relating to a further payee, Trylife Limited. Trylife Limited was not involved in social media, rather its main business was the creation of 'choose your own story' videos, but it did receive significant funds from ECC and the Committee agreed to provide information about payments to them in the appendix. Information about Trylife is appended to this report.

The view of the Head of Communications is that the 'choose your own adventure' videos provided by Trylife were of benefit to Essex schools and youth organisations and his recollection is that they were well received.

### **Reponses to Questions asked in the Council Resolution or by the Committee.**

## DRAFT REPORT DRAFT REPORT DRAFT REPORT

### 1. By what selection process was Mr Harris initially awarded these contracts, who made the decision and what background checks were made given his reputation as a comedian and prankster?

The Committee acknowledge the information published by officers in January 2024. There is no record of any competitive procurement process taking place. Contracts fall within three categories:

- Contracts for services which were not required to be subject to any competitive process either because:
  - The value was £10,000 or under
  - The contract was covered by a 'waiver' where internal permission was granted to award contracts without competition.
- Contracts which were required to be subject to a competitive process but where officers were unable to find any evidence of a competitive process having taken place. It seems reasonable to conclude that no such process did take place.
- Contracts which took the form of a grant. No competitive process was required for grants.

The Committee were shown a [chart](#) which indicated that much of this work involved creation of a team who worked together but whose members had no contract with each other, their only legal obligation was to the Council, and sometimes those contracts were unwritten. Although they had to work closely with each other, they were also working at arm's length from the council.

The Committee are firmly of the view that the poor definition and unclear legal relationships created the risk of two people being paid for the same work. Although we did not find any evidence that this was the case, the poor records meant that we could not be assured that work was not duplicated. The 'arm's length' feature had strengths and weaknesses; the lack of control by ECC which led to a message being posted on social media which many regarded as inappropriate, illustrates a significant and important weakness.

It is for the Council to decide what it wishes to buy, but the Audit Committee can express a view as to whether the manner in which it was bought was appropriate, which it does in this report.

The nature of this arrangement meant that it could legitimately have been funded via grants or as a procurement of independent contractors.

In many, but certainly not all cases, written contracts do exist, although they are of poor quality (see next section). The contracts issued prior to April 2023 took the form of contracts for services and those after took the forms of grants. Legal advice was that given the absence of previous competition and the commencement of the Subsidy Control Act 2022 - whose 'minimum financial assistance' provisions came into force on 4 January 2023 – this was the most appropriate way to proceed.

## DRAFT REPORT DRAFT REPORT DRAFT REPORT

With respect to 'background checks' the Committee heard that it would neither be necessary nor appropriate for Mr Harris to have a DBS check as this type of work did not involve regulated activity such as working in person with children or vulnerable adults. It would have been unlawful for the Council to obtain an enhanced DBS check on Mr Harris. The Committee asked about other types of checks that could be referred to. They were told that the Council could seek references or ask to see examples of work.

The Committee were also told that this work was considered innovative although the Committee noted that no other Council appears to have adopted this approach.

### **2. What precisely were these contracts awarded for, who signed them off, what due diligence was carried out and what value for money was carried out before further contracts or payments were awarded?**

The written contracts were published on the Council's website in January 2024. Anyone can therefore inspect the contracts themselves.

As already stated, the contracts themselves generally contain very little information and in some cases are unwritten. Whilst an oral contract is perfectly valid in law and can often be enforced, the lack of a written contract is unhelpful.

The contracts themselves were therefore of very limited value when piecing together what work was done. Some of this information has had to be obtained from observing what happened or by reading other information describing the services rather than from reading the contracts themselves.

The Committee heard that the social media contracts were awarded for amplification of ECC's corporate social media messages on arms-length social media accounts, almost exclusively facebook pages and groups as this is where most local content in the UK is issued, but also to a very limited extent on instagram and twitter (as it was then called). These covered many different subjects. The contracts variously covered activities such as

- Administering pages and groups.
- Providing content on relevant topics, though the Committee note that in some cases, such as the Veterans work Mr Harris claims to have told the Council that he was reliant on them providing content for him to amplify and work on as he had no knowledge.
- Reframing ECC content on relevant topics and posting it
- Developing and maintaining links with local Facebook groups
- Encouraging local Facebook groups to pick up content from the relevant Facebook groups to spread on a hyper local basis.

The committee observed that the service contracts were inadequately drafted, failing to specify the obligations of the contracted party and the council's rights to information necessary for evaluating performance. Additionally, it was noted that

## DRAFT REPORT DRAFT REPORT DRAFT REPORT

in certain instances, these agreements were merely oral, lacking any written documentation to substantiate the terms agreed upon.

The committee observed that unclear legal relationships and poorly defined roles increased the risk of duplicate payments for the same work. While no specific instances were highlighted, the inadequacy of the record-keeping practices made it probable that duplications may have occurred.

As noted previously, there is no evidence of due diligence being conducted prior to these contracts being awarded.

Questions about value for money are considered later in this report.

### **3. Were declarations of interest correctly recorded by those directly authorising the payments?**

No. The Committee have seen failures relating to declarations of interest. The Committee have seen no evidence that any declarations of interests were made and have seen information that several declarations of interest should have been made.

### **4. Why wasn't the in house ECC Communications Team given the additional resource to carry out the work by Mr Harris given that it was for a corporate public health awareness messaging campaign?**

The Committee were informed that this was for work in addition to a corporate public health awareness messaging campaign

The committee noted that, other than the published briefing notes to cabinet member, there was limited documentation on the rationale behind the contract award has obscured understanding of the decision-making process employed at that time. Nonetheless, the following details have subsequently been provided by the Head of Communication to the committee:

- the 'non-corporate' tone was more engaging to some people than the ECC tone.
- The initiative was not aimed at launching a corporate public health awareness campaign, but rather at amplifying existing efforts. At the time, the team were clear they lacked the necessary resources to undertake this work internally.
- An in-house approach would have had to be different and possibly less engaging to some people.

The Committee observed that a significant drawback of this approach, to which the Council had only limited ability to mitigate, was the Council's inability to control the content posted in its name. Citing the example of an inappropriate post, the Committee questioned why the Communications team did not raise concerns. It was clarified that posts were not checked in advance and not all posts were checked.

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Without intending any disrespect to the professional opinion of the Head of Communications, the Committee questioned whether in hindsight this was the right thing to do and believed that there was an alternative view that similar work could have been done in house.

The Committee noted that had the work been done in-house, a number of the risks identified in this report would have been reduced or entirely avoided.

Some members of the Committee felt that the Communications Team should have been more involved, notwithstanding the views above.

**5. What analysis of the viewing data is available, considering the average view of a typical Facebook page is three seconds, and in particular Mr Harris's Facebook coverage in Essex? The Committee should consider use of an Independent data analyst to be engaged as a witness to the committee to verify how meaningful published reach data is.**

The Committee saw the page impression and interactions data that the council has been able to obtain from the Facebook admins. This has been published on the Council's website.

The Committee decided that they did not need a data analyst to understand that page impression data is of limited value, because it simply says that a piece of content has been displayed on someone's device but not whether or not it was read. They were aware from their own experience that many posts may not be read even if they appear on people's screen. Furthermore, the committee members' own analysis provides ample evidence to suggest that while some benefits may have been derived from this undertaking, they are not substantial enough to meet the threshold required for the committee members to be satisfied that value-for-money has been achieved.

It seems very difficult to measure effectiveness of work of this nature when there is no financial outcome and many factors may have influenced case numbers and it is difficult to conclude which campaign was successful (or whether any campaigns were successful).

Although an engagement rate could be calculated – the percentage of page impressions which resulted in an recorded interaction by the user – this rate is itself meaningless without being able to compare it with data from similar sites.

The Committee noted that most of the data covered the last two years – broadly from April 2022, and therefore did not include the height of the pandemic when there was said to have been more engagement. The Committee were told that in all but one case, earlier data was not available.

The Committee noted that the data they saw showed that most posts had little 'liking' or 'sharing' and whilst not every viewer who consumes a page will interact in this way, this must indicate less engagement than would have been the case if more liking or sharing had taken place.



The issue of value for money is considered in question 8, including an analysis of the limited number of followers attracted by some sites.

The Committee asked how ECC normally measures the success of social media campaigns. They were told that there is no standard metric for this and it would be impossible to develop one given that each campaign will have different objectives and success criteria.

**6. It has been reported that serious concerns were raised in 2021, why did payments continue until 2023?**

The peak of payments coincided with the pandemic and the number of size of payments on social media projects did reduce after this. The pandemic does to a large extent explain the urgent need to set things up for Essex Coronavirus Action and some of the payments for support during the pandemic. However a small number of the payments were prior to the pandemic, and some were for activity which was clearly unrelated to the pandemic. Whilst the Public Health team was obviously under significant pressure in terms of the demands on its resources, this does not excuse non-compliance with rules.

For the 2023/24 year payments covered four areas:

- Essex is United – which is to be handed over to the community. This was the final year of a three year agreement.
- Essex is Green – which is to be handed over to the community.
- Never too Late Mate – which was extended and is to be discontinued.
- Veterans - which was extended and is to be discontinued.

The concerns relating to value for money were raised in 2024. Services of this nature involve a degree of 'embedded' value. We say this because Groups and pages with tens of thousands of members/followers had been created. The Essex is United group has more followers than the ECC Facebook page has followers. Creation of such a group takes time and energy. The incoming Head of Strengthening Communities was aware of the need to review the spend but this was not able to be completed until 2023. A review involved working with the climate action team who were funding 'Essex is Green' and those leading on the Armed Forces Covenant work for the 'veterans' page/group.

The Committee were told that as soon as work stopped on a page or group it would become out of date and cease to be as useful as followers would drift away. Given that the Council did not own the pages, the owners could even delete it. They were told it would take a lot more work to recover pages if the decision to discontinue was taken and then reversed.

**7. What is the usual budget for social media and how much has been spent on social media since April 2023?**

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The Committee were informed that the Council does not have a specific budget for social media and are therefore unable to answer this question. The Council has campaign budgets and this may include an element for social media. The Committee were provided with information about the cost of two campaigns and the social media spend on those campaigns which was published in the [report](#) considered on 15 April 2024.

### **8. Does the Audit, Governance and Standards Committee consider this expenditure to be value for money, and if so, how?**

The Committee were certain that the payments for social media groups did not represent good value for money. The Committee notes that in December 2023 officers in Public Health came to the same conclusion and decided not to continue it.

For instance, The Facebook Group 'This is Your Life' has incurred a total expenditure of £70,000, but it has garnered only 1,300 links and 1,500 followers and exhibits very low engagement. Similarly, the 'Never Too Late Mate' group has spent £15,000, attracted 6,100 likes and 6,900 followers, but has had from minimal engagement in the last two years. In the case of 'Essex is Smoke Free', the group has a mere 174 followers with no engagement, despite a payment of £5,000. Additionally, 'Essex Supports Veterans' has 189 followers, almost no engagement, and has incurred expenses of £15,100.

These figures are low, but for other pages it was much higher, and the overall approach was to spread messages via local facebook groups and that many hundreds of local facebook groups were engaged with, rather than via the page itself. The Committee felt that it was appropriate for the Council to have experimented with this approach.

### **9. The effectiveness of member scrutiny of this expenditure?**

Given the novelty of these arrangements the Committee feels that the reports taken by Cabinet and the Leader should have included more information about the contractual arrangements relating to how the money was to be spent. The Committee understands that the reports related to much wider spending programmes and generally did not set out how procurement was to be undertaken.

The Committee also saw that there were separate briefing notes for Cabinet Members but there was no document which gave the overall picture of the spend.

None of the written information that the Committee saw shows how the services were to be contractually structured. There is no evidence that any of those who saw the reports asked questions on this. The Committee noted that no member of any party appears to have asked for this information either at meetings or when exempting from call-in.

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The Committee noted that that no councillor was presented with a single report showing the full extent of the spend. They appreciated that this was not likely to have been visible to anyone outside the Public Health service. They considered that councillors are not expected to query the procurement arrangements of every decision.

One member of the committee points out that almost half the county councillors now in post were not elected until May 2021 and that although the June 2021 Cabinet meeting, which dealt with this, was well attended by non members of the Cabinet, as it was the first meeting with a new council and a new leader, many new members were still learning their role at that point.

### 10. **What learning so far has been taken and what changes made or are being explored in procurement processes?**

The Committee were told that this was an innovative and experimental piece of work, albeit one which has not been copied elsewhere. The Committee were told that approach of producing content at arm's length and encouraging local Facebook groups to repost the content had some benefits. It seems clear that:

- It works better in some areas than others; there needs to be year round content and the Council needs to supply messages regularly
- The way that the arrangements were set up created a situation where only these providers were really able to continue it without creating a risk of losing the followers already in place. That was not desirable. It may be understandable at the time when this started, at the height of the pandemic and there was initially a waiver to cover the initial work, but with hindsight more thought should have been given to how long this work would continue, an exit strategy and how it could have transition to a sustainable delivery model.
- Similar Facebook groups were set up to cover other subjects which were not pandemic related. This work started in mid 2020. These groups were not set up appropriately; there was no waiver. This work should have been delayed if the Council was not able to procure it properly, or at least a procurement waiver should have been obtained. Although there was a limited market for this type of work it should have been tested in the market.
- Procurement processes were not followed and clearly ECC needs to ensure that officers' knowledge is reinforced and that compliance with rules is enforced. The Committee noted that they were drawing on a small sample of staff in the public health team and consider that audit work should be undertaken to test whether this is more widespread, though they saw no evidence that it was more widespread.
- In addition changes in procurement processes could be explored.
- In future it is important to have an 'exit strategy' if this type of work is to be commissioned. That could have avoided dispute between those involved about who has 'ownership' of the pages and groups once the council had ceased involvement.
- Not all processes in the Council which lead to recommendations being made have a system for tracking implementation of those recommendations. That has now been improved.

**11. Outside Work**

The Council has a policy which requires employees to obtain consent before undertaking outside work. The policy leaves it to managers to discuss and agree whether it is appropriate for the work to be undertaken, whether it presents conflicts and, if so, how those conflicts could potentially be managed.

**12. Email deletion.**

As part of our work we wanted officers to examine the outlook inbox of employees who had left the council. Their email boxes had been deleted in accordance with standard processes. These processes do allow for emails to be retained but only by request. We were advised that by law there has to be a business need for emails to be retained in accordance with the GDPR principle that information is retained for no longer than necessary.

The Committee noted that emails may have been deleted by the employee concerned. They did question whether, in the cases they looked at, the correct decision was made by line managers.

**Recommendations:**

The Committee make the following recommendations:

- The Council should reinforce compliance with procurement limits.
- Although the thresholds for competitive procurement processes was not a particular issue in this case, nevertheless a review should be undertaken.
- The Council should ensure that oral contracts should be the exception and should not be used for the procurement of complex services.
- The Council should consider whether more references or other background checks should be required when buying services.
- The Council should review whether there is more than can be done to reinforce the importance of completing the declaration of interests process.
- Systems should be reviewed so that everyone approving purchase orders, payments or requesting payments is required to specifically confirm that they do not have any conflict of interests or any relationship with the organisation being paid.
- Guidance should be given that contracts should include key performance indicators and outcomes.
- Guidance on the Council's position on the boundary between grant awards and contracts should be produced.
- The 2024/5 internal audit programme on procurement should include sample testing work aimed at determining:
  - whether or not these are isolated issues; and
  - whether smaller contracts such as these have appropriate specifications

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- All decisions to award contracts for more than a de minimis threshold - to be determined by the Section 151 officer - should be in writing or recorded in writing.
- Any funding of content creation at arm's length should have a clear exit strategy, enforceable by a contractual term.
- The checklist for people leaving ECC is amended to ask a manager of appropriate seniority to consider whether or not email should be retained.
- The Director of HR reviews the policy which requires employees to get permission before doing outside work or running businesses, particularly where there was potential for employees to profit from knowhow acquired whilst working for ECC.
- The Head of Assurance and the Committee should review to discuss how the committee can be given more information about assurance reports, noting that this may mean that the Committee may need to meet in private more frequently.

In addition there is one recommendation which is not referenced in the public report. That relates to recommendation relating to the training of senior leaders.

The committee will be monitoring responses to and implementation of these recommendations.

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### Appendix – Payments made to Trylife Limited

As stated in the main report. Trylife Limited did not provide services related to social media and were not in scope of the information published in January 2024.

The original activity was the production of ‘choose your own adventure’ videos posted online. The view of the Head of Communications is that the ‘choose your own adventure’ videos provided by Trylife were of benefit to Essex schools and youth organisations and his recollection is that they were well received.

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| Date       | Inv date   | PO         | System approver    | Amount  | Purpose  |
|------------|------------|------------|--------------------|---------|--|
| 01/01/2020 | 04/12/2019 | 800079608  | Kirsty O'Callaghan | 10,000  | Social Movement Grant 2019/20  |
| 01/10/2019 | 30/08/2019 | 8000070882 | Paul Ashworth      | 20,000  | Social Movement Grant 2019/20  |
| 05/12/2019 | 04/11/2019 | 800079608  | Kirsty O'Callaghan | 10,000  | Social Movement Grant 2019/20  |
| 05/12/2019 | 07/11/2019 | 800079608  | Kirsty O'Callaghan | 10,000  | Social Movement Grant 2019/20  |
| 06/03/2020 | 31/01/2020 | 8000086155 | Kirsty O'Callaghan | 10,000  | Social Movement Grant 2019/20  |
| 09/06/2021 | 05/05/2021 | 8000115474 | Charlotte Britton  | 117,500 | Digitised Youth Work - Climate Change Programme 2021/2022 Project  |
| 13/11/2020 | 05/10/2020 | 8000102008 | Charlotte Britton  | 6,000   | Delivery support of digital campaign for young people Project  |
| 16/07/2021 | 07/06/2021 | 8000117539 | Kirsty O'Callaghan | 100,000 | Deliver a youth focussed COVID19 engagement and behavioural change assets, developed in collaboration with young people, from the Contain Management Outbreak Fund [COMF]. Payment will be in two tranches of £50,000, the second payment being six weeks after the first. |
| 16/12/2019 | 19/11/2019 | 800079608  | Kirsty O'Callaghan | 10,000  | Social Movement Campaign Grant 2019/20   |
| 18/05/2021 | 07/04/2021 | 8000112505 | Charlotte Britton  | 10,000  | Essex is Green Digital Assets Young People 2020/21 Project   |
| 19/12/2019 | 26/11/2019 | 800079608  | Kirsty O'Callaghan | 10,000  | Social Movement Campaign Grant 2019/20   |
| 25/07/2019 | 26/06/2019 | 8000070882 | Paul Ashworth      | 20,000  | Social Movement Campaign 2019/20   |

**Audit, Governance and Standards Committee – Work Programme 2024/25**

The Work Programme is subject to revision as circumstances change.

**PART ONE – Agenda items where the timing of presentation to the Committee is known.**

| <b>Meeting</b>                   | <b>Topic</b>   | <b>Author</b>   |
|----------------------------------|--|---|
| <b>23<br/>September<br/>2024</b> | <b>Approval of 2021/22 Statement of Accounts</b>                       | Nicole Wood, Executive Director, Corporate Services and Christine Golding, Chief Accountant |
|                                  | <b>2021/22 Audit Completion Report – Essex County Council</b>          | Nicole Wood, Executive Director, Corporate Services and Christine Golding, Chief Accountant |
|                                  | <b>2021/22 Audit Completion Report – Essex Pension Fund</b>            | Nicole Wood, Executive Director, Corporate Services and Christine Golding, Chief Accountant |
|                                  | <b>Internal Audit and Counter Fraud progress reports</b>               | Paula Clowes, Head of Assurance   |
|                                  | <b>Risk Management Update</b>  | Paula Clowes, Head of Assurance   |
|                                  | <b>Assurance on Highways controls</b>                                  | Peter Massie, Head of Essex Highways Commissioning  |
|                                  | <b>Approval of 2022/23 Statement of Accounts</b>                       | Nicole Wood, Executive Director, Corporate Services and Christine Golding, Chief Accountant |
|                                  | <b>2022/23 Audit Completion Report – Essex County Council</b>          | Nicole Wood, Executive Director, Corporate Services and Christine Golding, Chief Accountant |
|                                  | <b>2022/23 Audit Completion Report – Essex Pension Fund</b>            | Nicole Wood, Executive Director, Corporate Services and Christine Golding, Chief Accountant |
|                                  | <b>External Auditor’s Annual Report – covering 2021/22 and 2022/23</b> | Nicole Wood, Executive Director, Corporate Services and Christine Golding, Chief Accountant |
| <b>16<br/>December<br/>2024</b>  | <b>Internal Audit and Counter Fraud progress reports</b>               | Paula Clowes, Head of Assurance   |
|                                  | <b>Risk Management Strategy</b>  | Paula Clowes, Head of Assurance   |
| <b>24 March<br/>2025</b>         | <b>Internal Audit Charter</b>  | Paula Clowes, Head of Assurance   |

|                          |   |  |
|--------------------------|---|--|
|                          | <b>Audit Plan</b>   | Paula Clowes, Head of Assurance            |
|                          | <b>Internal Audit and Counter Fraud progress report</b>               | Paula Clowes, Head of Assurance            |
|                          | <b>Risk Management Update</b>   | Paula Clowes, Head of Assurance            |
|                          | <b>Audit Committee effectiveness review</b>                           | Paul Turner, Director, Legal and Assurance |
| <b>9 June 2025</b>       | <b>Head of Audit Opinion</b>  | Paula Clowes, Head of Assurance            |
|                          | <b>Annual Report of the Audit, Governance and Standards Committee</b> | Paul Turner, Director, Legal and Assurance |
|                          | <b>Annual review of Member Gifts and Hospitality</b>                  | Paul Turner, Director, Legal and Assurance |
|                          | <b>Annual review of Standards Complaints</b>                          | Paul Turner, Director, Legal and Assurance |
|                          | <b>Annual review of Member and Officer Foreign Travel</b>             | Paul Turner, Director, Legal and Assurance |
| <b>22 September 2025</b> | <b>Internal Audit and Counter Fraud progress reports</b>              | Paula Clowes, Head of Assurance            |
|                          | <b>Risk Management Update</b>   | Paula Clowes, Head of Assurance            |
| <b>15 December 2025</b>  | <b>Internal Audit and Counter Fraud progress reports</b>              | Paula Clowes, Head of Assurance            |

**PART TWO - Agenda items where the timing of presentation to the Committee is unknown (because the reports dependent upon the delivery of the relevant report or completion of the relevant work by the Council's External Auditor)**

| <b>Meeting</b>  | <b>Topic</b>  | <b>Author</b>   |
|---|---|---|
| <b>Dates to be determined / advised by the external auditor</b> | <b>2023/24 Accounts and Audit:</b>  |   |
|   | <ul style="list-style-type: none"> <li><b>External Auditor's Audit Plan for Essex County Council – 2023/24</b></li> </ul> | Nicole Wood, Executive Director, Corporate Services and Christine Golding, Chief Accountant |
|   | <ul style="list-style-type: none"> <li><b>External Auditor's Audit Plan for Essex Pension Fund – 2023/24</b></li> </ul>   |   |
|   | <ul style="list-style-type: none"> <li><b>2023/24 Audit Completion Report – Essex County Council</b></li> </ul>           |   |



|  |   |  |
|--|---|--|
|  | <ul style="list-style-type: none"><li>• <b>2023/24 Audit Completion Report – Essex Pension Fund</b></li></ul> |  |
|  | <ul style="list-style-type: none"><li>• <b>Approval of 2023/24 Statement of Accounts</b></li></ul>            |  |
|  | <ul style="list-style-type: none"><li>• <b>2023/24 External Auditor's Annual Audit Report</b></li></ul>       |  |